

PROCEEDINGS

Canadian Political Science Association

1934

NUNC COGNOSCO EX PARTE



TRENT UNIVERSITY
LIBRARY



Digitized by the Internet Archive
in 2019 with funding from
Kahle/Austin Foundation

PAPERS AND PROCEEDINGS

OF THE

SIXTH
ANNUAL MEETING

OF THE

Canadian
Political Science Association

VOLUME VI

MONTREAL, QUEBEC

MAY, 1934

JA 28. C3 v.6 1934

Copyright, 1934, by
CANADIAN POLITICAL SCIENCE ASSOCIATION

PRINTED AND BOUND BY
THE JACKSON PRESS
KINGSTON, ONT.

TABLE OF CONTENTS

	Page
Program of the Sixth Annual Meeting, May, 1934	1
Papers and Discussions:	
Presidential Address:	
The Revision of Democracy, by Stephen Leacock	5
The New Economic Nationalism:	
Economic Nationalism, by H. A. Innis	17
The New Economic Nationalism and Canadian Agriculture, by J. E. Lattimer	32
Economic History:	
Tariffs and Trade in the British North American Provinces before Confederation, by J. C. Hemmeon	51
Round Table Conferences:	
The Status of Aliens in Canada:	
N. A. MacKenzie	60
J. Finkleman and N. A. MacKenzie	61
M. Hancock	79
Economic Theory:	
V. W. Bladen and A. F. W. Plumptre	94
Transportation:	
The Canadian Transportation Problem, by E. W. Beatty.....	108
Discussion:	
J. L. McDougall	128
H. A. Innis	133
Public Finance:	
The Bases of Provincial Subsidies, by W. C. Keirstead.....	134
Provincial Conferences and Better Terms, by J. A. Maxwell	162
Round Table Conference:	
Agricultural Credit:	
R. P. Baker	175
C. Gagne	192

TABLE OF CONTENTS—continued

Population:	Page
Factors in the Growth of Rural Population in Canada, by O. A. Lemieux, S. A. Cudmore, M. C. MacLean, A. J. Pelletier, and W. R. Tracy	196
Population Movements in Canada 1921-1931, and their Im- plications, by W. B. Hurd	220
Round Table Conference:	
The Problems of Constitutional Amendment in Canada:	
W. C. Goldenberg	238
F. H. Underhill	244
Canadian Monetary Policy:	
Canadian Monetary Policy—Drift, Domestic Management, and Debts, by G. A. Elliott	251
Canadian Monetary Policy—An International Standard, by J. P. Day	263
Discussion:	
C. A. Curtis	272
D. M. Marvin	272
A. F. W. Plumptre	273
F. A. Knox	274
Minutes of the Business Meeting May, 1934	276
Report of the Secretary-Treasurer	278
Constitution of the Canadian Political Science Association	283

PROGRAM OF THE SIXTH ANNUAL MEETING HELD
AT MONTREAL, QUEBEC, MAY 21-22-23, 1934

Monday, May 21st

7.00 p.m. Dinner, and Presidential Address by Stephen
Leacock, McGill University.

Tuesday, May 22nd

10.00 a.m. Morning Session

Presiding Officer: W. A. Mackintosh, Queen's Uni-
versity.

General Topic: *The New Economic Nationalism*

Papers: H. A. Innis, University of Toronto; J. E.
Lattimer, Macdonald College.

2.00 p.m. Afternoon Session (Joint Session with the Cana-
dian Historical Association)

Presiding Officer: D. A. McArthur, Queen's Uni-
versity.

General Topic: *Economic History*

Papers: C. W. Martin,¹ University of Toronto;
J. C. Hemmeon, McGill University.

2.00 p.m. Round Table Conferences

The Status of Aliens in Canada

Chairman: H. F. Angus, University of British
Columbia.

Discussion: J. Finkleman and N. A. M. MacKenzie;
M. Hancock.

Economic Theory

Chairman: F. A. Knox, Queen's University.

Discussion: V. W. Bladen and A. F. W. Plumptre.

¹ Mr. Martin's paper is to be published by the Canadian Historical
Association.

4.00 p.m. Tea in the Royal Victoria College given by the
Women Associates of McGill University.

5.00 p.m. Meeting of the Executive Council

8.00 p.m. Evening Session

Presiding Officer: I. A. MacKay, McGill University.

General Topic: *Transportation*

Paper: E. W. Beatty, Canadian Pacific Railway,
Montreal.

Discussion: J. L. McDougall, Queen's University;
H. A. Innis, University of Toronto.

Wednesday, May 23rd

9.30 a.m. Business Meeting

10.00 a.m. Morning Session

Presiding Officer: D. A. MacGibbon, Board of
Grain Commissioners, Winnipeg.

General Topic: *Public Finance*

Papers: W. C. Keirstead, University of New
Brunswick; J. A. Maxwell, Clark University.

10.00 a.m. Round Table Conference

Agricultural Credit

Chairman: J. D. McLean, Farm Loan Board,
Ottawa.

Discussion: R. P. Baker, Huron and Erie Mort-
gage Corporation, London; C. Gagne, École
D'Agriculture de Sainte-Anne de Pocatiere.

2.00 p.m. Afternoon Session

Presiding Officer: R. H. Coats, Dominion Bureau of Statistics, Ottawa.

General Topic: *Population*

Papers: O. A. Lemieux, S. A. Cudmore, M. C. MacLean, A. J. Pelletier, and W. R. Tracy, Dominion Bureau of Statistics; W. B. Hurd, Brandon College.

2.00 p.m. Round Table Conference

Problems of Constitutional Amendment in Canada

Chairman: A. Brady, University of Toronto.

Discussion: W. C. Goldenberg, McGill University; F. H. Underhill, University of Toronto.

8.00 p.m. Evening Session

Presiding Officer: S. R. Noble, Royal Bank of Canada, Montreal.

General Topic: *Canadian Monetary Policy*

Papers: G. A. Elliott, University of Alberta; J. P. Day, McGill University.

Discussion: C. A. Curtis, Queen's University; D. M. Marvin, Royal Bank of Canada, Montreal; A. F. W. Plumptre, University of Toronto; F. A. Knox, Queen's University.

According to its Constitution, the object of the Canadian Political Science Association is the "encouragement of the investigation and study of Political, Economic and Social Problems." When first organized it was called a Political Science Association because it was intended to promote the discussion of all matters of public policy which may become matters for political action, not because it was to be concerned solely with the science of government. In Canada, those matters of public policy are as yet mainly economic and therefore economic topics predominate in the programmes of the annual meetings of the Association. It strives to provide for the discussion of national problems by all who are in any way qualified to deal with them. Its membership contains all shades of economic opinion, and is not confined to professional economists, political scientists or sociologists but is open to all persons interested in the objects it seeks to promote. Obviously, the Association assumes no responsibility for the opinions expressed at its meetings.

PAPERS AND DISCUSSIONS

THE REVISION OF DEMOCRACY

[PRESIDENTIAL ADDRESS]

STEPHEN LEACOCK

There is a well-worn Latin dictum which runs, "*Quod semper, quod ubique, quod ab omnibus creditum, id verum est.*" As logic is it worthless, but as common experience it is fairly sound. In the same way the almost universal appearance, in countries hitherto more or less democratic, of serious departures from what used to be thought the principles of democratic government, would seem to indicate that these principles themselves are no longer applicable to the time and circumstance in which we live. These departures have excited in the minds of many, especially in Great Britain, the cradle of individual freedom, an intense antipathy. They have been associated with such ill-omened terms as dictatorship, autocracy, despotism, and the suppression of individual liberty. For many people discussion is ruled out of court before it can begin. To them the establishment of equal individual political rights, the right to vote, government by an elected legislature and the subordination of the executive to the declared will of the majority, represent a permanent achievement of civilized mankind, a forward movement of progress. Any departure from this seems mere retrogression, steps taken backward into the dark.

This is particularly true in the case of public opinion in England. The English people have long since converted their history into a national epic legend, a noble story of the development of national greatness in which freedom has "broadened down from precedent to precedent" till it culminated in the nineteenth century in political freedom, free trade, free speech and, that greatest of all blessings (if one only knew what it meant) the freedom of the seas. The national poetry, the fiction, the drama and even the humor of England, all

reflect this noble legend. Not Tennyson alone but Gilbert and Sullivan as well have exalted the individual who, in spite of all temptation to belong to another nation, was born an Englishman: While the late Mr. Harold Begbie cast the same thought into a mould of religious ecstasy when he declared that "*The sea is His, God made it, and England keeps it free.*" At the moment in question England was keeping the sea about as tight shut as a first-class navy could make it.

Here, then, are a set of glorious and honorable national understandings, such as that freedom broadened down, that the House of Commons is the mother of parliaments, that an Englishman's house is his castle, that free trade made England and that in England speech is free and a "man may say the thing he will." All this, in the spacious Victorian days, contrasted with the iron prisons of the Romanoffs, the autocracy of Louis Napoleon, the sorrows of Italy, the dead hand of Spain, the pop-gun revolutions of South America and the hilarious misgovernment of the United States. The English people, warming their hands like Mr. Pecksniff beside his hearth, felt that they were not like other people, that there was something about them—sometimes they called it their genius for government—sometimes their ability to compromise—or more simply English national character. At any rate the thing was there.

Hence it comes that to alter any of these things a terrific weight of inertia is to be encountered, or even a fierce opposing force of national antipathy. Protection is un-English; fascism is un-English; Sir Oswald Moseley is un-English; government by officials instead of by discussion is un-English. Lord Hewart's recent book, *The New Despotism*,¹ is designed to denounce what appears as a dangerous tendency to substitute government by autocratic officials for government by parliament and the courts and law. Lord Hewart does not seem to be aware that in this new mechanized age, in most industrial matters any rapid and final decision, good or bad, is better than the infinite delays of legal interpretation and controverted appeals. As we live now, law must be quick or is useless.

¹ London: Benn, 1929.

The truth is that a good part of this national theory, inspiring as it is, was based on myth. Consider the question of free speech. We may take here as typical of its time Professor J. B. Bury's outstanding little volume, *A History of the Freedom of Thought*.² In this work the story of the liberation of thought and speech from the repression and persecution of the middle ages, when "reason was in chains," is written up a sort of epic—human reason emerging at length from the medieval darkness to the broad sunlight of the Victorian day. But a great deal of this is pure myth. Speech is not free now and never has been free and never will be free. Freedom of speech only exists in proportion to indifference to the thing spoken of. In the last fifty years there has come a great freedom of speech and action in regard to religion; but this is merely because religion, in the sense of dogma, has lost interest for most people. No one cares whether his neighbor believes in hell or not; no one knows what the clergy believe; everyone suspects that, in point of dogma, other people believe very little, if anything. In such an atmosphere persecution for religious belief would be as out of place as persecution for a man's views on the Latin ablative.

In the same way during a long period of the nineteenth century the overwhelming mass of the people were in complete agreement about the monarchy and about the basis of government as resting on individual prosperity and individual rights. Hence a Jacobite was merely a romantic survival, the White Rose Society (still existing), a quaint and charming loyalty, a republican (say at a Victorian dinner party) a "naughty man," and a communist, such a queer interesting person with the oddest views. But now that we are entering on an age when Communism and Individualism are locked in a life and death struggle we shall soon see, we are already seeing, all about free speech both in Russia and outside of it.

* * * * *

Now there is a sense in which democracy has come to stay, in as much as certain things which it destroyed are gone forever. No one supposes that feudal property and

² New York: Holt, 1913.

feudal rights, clerical control and the hereditary order of society are coming back again. But this does not mean that the democracy of the nineteenth century was anything more than a chapter of human history.

Turn back a moment to recall in broad outline and rapid prospect its rise and form. As feudalism and religious dogma declined and commerce and industry arose, there appeared *the individual* shaken loose from his hereditary setting by the new mobility of economic life. The advance of science, freed from the dead hand of the Church, and with it the advance of the arts it fostered, spread abroad education, moving from the top down, in widening circles towards the mass below. All these things created the "enlightenment" of the eighteenth century and a new outlook on the world. It found its expressions through the philosophers, through the literary people and, gradually, in the consciousness of the mass. Our psychologists of to-day tell us that we do not really think for ourselves: we think in masses, all of us thinking one thing at a time and moving like a school of fish or a flock of birds. A so-called "thinker" is merely a "talker" who can express what the others feel. So came into the world the idea of modern democracy, rendered possible by the decline of interest in religious dogma and the new isolation of individual economic life. Its charter documents, as everybody knows, were such things as the British Bill of Rights, John Locke's Treatises, Hume's Essays, Rousseau's Social Contract, the Declaration of Independence, the Bills of Rights of the States, and overwhelmingly the French "principles of 1789" as embodied in the preface to the Constitution of 1791 (*Declaration of the rights of man and of the citizen*). On the economic side it found its expression in the work of the physiocrats and the ponderous *Wealth of Nations*.

The storm of the Great War (the one that was called "great" till there came a greater) flattened down these principles as ripe grain beneath the thunderstorm. But after 1815 the system rose again to see itself drafted and consolidated in the works of the Benthamites, the Mills, the Sayers and the Bastiatists of the nineteenth century. It became more or less the world's recognized form of government, modified and conditioned and varying, but existing as a sort of type, like

Plato's horse. Thus in England, in spite of law and theory, "government by gentlemen" persisted till the end of the nineteenth century; France varied democracy with panoplies of empire; Germany spread over and through it a network of hereditary rights; Italy mingled it with nationalism, an inspiration now being renewed; Russia drove it underground.

But it is in America, as all observers have noted from de Toqueville to André Siegfried, that we can best study the rise and development of the idea. Here there was open ground, little to clear away, and a pioneer economic life which made for economic individualism.

Observe then how simple was the structure of the American democracy of the opening years of the republic. Here is the New Hampshire constitution, 600 words, and plenty at that. (Compare it with the 50,000 words of a state constitution of to-day.) It sets up, it and the others like it, a form of government by a simple formula. The people elect a few officials, and a house of delegates. These carry out certain things entrusted to them: and that is the whole of it. The "people" means at first only the decent people—those with property—or, in Connecticut, the religious people, those belonging to a church. But presently, after the invasion of the Alleghanies and the Mississippi valley, it means all the people, decent or not, and religious or otherwise.

The functions of the legislature and the government are very simple. They deal with the economy of land, farming, fisheries and the primitive transport of sail and wagon. Everybody knows about everything. There are no technicalities, no machinery except what can be understood in an hour, no electricity, no power, no gasoline.

When the legislature discusses whether to run the Pike Road through the Cumberland Gap and whether to put a trestle bridge over the Susquehanna, all the members are equipped to talk about it. Expenditures are low, there are no franchises to give and little chance of speculation or stealing, except perhaps in connection with grants of land—by gentlemen for gentlemen—on a basis already familiar in England. George Washington no doubt had the impression that he had come by his 150,000 acres quite honestly. To-day

he would have had the same idea of himself as the head of a tramways company.

Under these circumstances civic virtue flourished. There was nothing else for it to do. Patriotism comes easier when there is nothing to steal. Stavinski in 1789 might have grown grapes in Delaware and died respected.

The point is that we have never sufficiently taken account of the economic basis of democracy. The economic life of a hundred years ago favored isolated individualism, government by representation, legislation by discussion and in general freedom—meaning the opportunity to sink or swim, live or die, on your own. Our modern technological world has left all this behind. If I sink I poison the water.

To this structure of government was presently connected, as an operating mechanism, the party system. This, from the start, necessitated a departure from the plain truth of things, a dissonance between the supposed honesty of popular government and its obvious artificiality. As long as a “party” was a fact there was no sin against the light; when it became a fiction the case was altered. The original cavaliers and round-heads, kingsmen and rebels, were not agreeing to differ: they *did* differ. In the course of a century and a half this “broadened down,” as Tennyson would say, into Her Majesty’s loyal opposition, and party groups united for union’s sake and held together by “whips.” The metaphor was a good one: wild dogs, the real ones, hunt without being whipped.

So, too, in America came party as the handmaiden, then the mistress, then the termagant of democracy. In the early days of the republic “federalists” and “republicans,” as such, started with opinion first and party as a consequence. Within half a century the order was reversed: men formed a party first and then selected their “opinions” (called a platform) as carefully as builders select lumber. Indeed, in America party ran away with democracy; the race of the Marceys and the VanBurens and such turned it into a system of spoils, of rotation in office, a plunder, a trade; for the time the terrific realities of the slavery issue (1850-1865) tore party out by the roots—party *systems* as such—killed the Whigs and created a body of opinion (the Free Soil and Republicanism of 1850-1860) that made a party. In other words, the cart was again

put behind the horse. But after the Civil War the octopus of party again wound itself round American democracy.

No one has ever known, no one still knows and few people agree just what to think about party government and what to do about it. It has obviously played a certain useful part. Without it a legislature could only unite and act together in moments of stress and national emergency. The Virginia Burgesses needed no party cohesion when Patrick Henry spoke in St. John's Church at Richmond of liberty and death. The South Carolina convention of 1860 needed no party when they voted secession; nor the British Commons in 1914 when they voted war. But in ordinary times a legislature without artificial party ties would merely be a brawling chaos of individual opinions, with each fool the loudest. There is the rub. It has always been one of the problems of civilization how to keep the fool in his place. It can be done with a club. But that destroys his life, or at least his true utility, and society loses by it. Somehow he must be made to imitate and follow wiser men, to act like a monkey at a looking glass. War, before it became a machine-industry, used to do it. Capacity proved itself. Religion, in its older sense of dogmas, incantations and taboos, succeeded pretty well. But with us hell frightens nobody, and an interdict is less than an injunction.

So democracy as a form of fool killing went into partnership with party. But in doing so it went too far. The remedy was too good. The "smart man" could now run away with the party. Hence appeared, as inevitably as logic itself, the "party boss," and the rule of the "bosses."

Thus the nineteenth century witnessed a sort of Laocoon struggle between ideal democracy and practical party. On the one hand there was after all an *ideal*; with burning honesties, school-book patriotism, periodical purifications by repentance, civil service reform, leagues of honest men, and the underground honesty of moonlight raiders with hoods on, assassinating what they could not fight. On the other hand was the plain consideration that government must be carried on somehow. So struggled democracy.

Now very early in the nineteenth century there entered a new element into the struggle, destined within a hundred

years to be its leading feature. This was the great change in human relationships effected by the increasing use of machinery, the increasing scale of production and the vast collective production of power. These things not only defied and denied economic isolation. They did more. They connected politics with money, with vast expenditures, with unparalleled opportunities for speculation. Even in the middle nineteenth century the introduction of steam railways and gas lighting and the telegraphs and the tramway had brought into being a new set of corporate agents, a new set of rights in the form of municipal and other franchises. With the electrical age (1880-1914) the process went still further. It was not merely the scale of production that changed things. It was the mystery of it. In Washington's day in the legislatures of the states everybody knew about everything. A century and a half later nobody knows anything about anything. The public service has become a vast technology.

* * * * *

Here then after the war we look about us and what do we see? A world struggling with an environment which it cannot control; with vast powers which it cannot use; a promised land in sight from the hilltops but with an unknown borderland . . . which we seem unable to cross. To this situation we are applying a system of government by representatives and parties and parliaments, a vast complicated artificiality which serves only to conceal its own insufficiency. In a modern legislative assembly, whatever subject is under discussion, most of the members know nothing about it. They are debating, let us say, a bill in regard to public health and hygiene. What do most of the members—nine out of ten—know about it? Nothing. They turn to bills to control electric power, to regulate franchises, radio, regulating the air, the sea, the sky—what do they know? nothing, and even less. The world has passed them by. It is a specialized world in which each branch of human activity has overpassed the range of all individuals except those occupied with it. In this weltering mess squats the democratic legislature and votes; and having no knowledge to do otherwise it votes in parties, in organized squads.

Let me offer an illustrative example. There was a certain country in which a project was being carried out for building a huge canal to connect inland waters with the open sea. The project had about it a majesty and a size which appealed to the imagination even of the humblest. But the detail of its construction was so complicated, so technical, so scientific that only a few would grasp it. The amount of expenditure was enormous, and was connected with franchises, purchases, contracts and a wilderness of things dependent on the votes of the legislature.

Now in this country the legislature had divided itself into two groups called the Frogs and the Rats. The names went back for a hundred years to a time when the Frogs had really begun as Frogs and the Rats as Rats. But in the course of time they had grown so like that he would be a clever man who could tell a Frog from a Rat. But the Frogs were a party and the Rats were a party and all the Frogs voted one way and all the Rats voted the other way. All a Rat needed to know about a public question was how the Frogs were going to vote. Then he knew that his opinion was the other way.

Now in building the canal grave public theft occurred. The votes of certain of the members were bought with money. They sold out their country to line their own pockets. No one in the country doubted the fact. So it came about that the legislature had to take a vote about the guilt or innocence of one of its members. It was, or should have been, a solemn moment. The senior Frog rose in his seat and laid his hand on his heart and said that in this grave situation they must forget that they were Frogs and Rats, and vote on heart and conscience. And the senior Rat rose and he, too, said that it was no time to vote as Rats and Frogs but as men of honor and conscience.

Then they voted. And all the Rats voted with the Rats and all the Frogs with the Frogs. Pretty smart, wasn't it? Because the Rats thought that the Frogs would be fools enough, some of them, to vote against their party, but the Frogs thought the same, so both sides were fooled. . .

But can one imagine any situation more repugnant to every feeling of public honesty? The mathematical possibility that the division into parties coincided with the real division

of honor and conscience is so faint as to be outside of the discussion. There must have been in the country many plain citizens, neither Frogs nor Rats, who felt a burning contempt for the whole crowd of them.

* * * * *

What we are saying then is that government in our age has become a highly technical matter. Mere discussion cannot do it. It has got to be carried on by a set of people as specialized for their work in life as doctors are, as engineers are, as sea-captains are. The ordinary citizen's life lies elsewhere. All that he can do is to try to entrust the government to good men: by this is meant men who are technically efficient, are honest, are devoted to their work and have as little temptation as possible to use their place and power for plunder. Democratic government by talking legislatures, short time officials and party organization runs contrary to all these things.

John Stuart Mill laid it down as a maxim that people must govern themselves; that even the best government by an "enlightened despot" — a favorite conception of the eighteenth century—was inferior to a government by and of the people. In other days, in other stages of human history, this was so. Not now. Mill and his fellows denounced the indifferent voter, demanded that all men should take an active interest in all public affairs. The price of liberty, they claimed, is eternal vigilance. But in our day any citizen who tried to follow intelligently all the public affairs and the public elections of his township, his county, his municipality, his school board and his sanitary district, his Province and his Dominion, his Empire and his League of Nations, would have no time in life for anything else. The only person who can make even an appearance of that is the man who sits all day on a cracker-barrel in a grocery store. The rest of us have no time for it. We must be about our business. All that we can do is to try to get a set of men, trained and specialized to carry on the government, to cut loose from the mock allegiance and fictitious opposition of party. There are those of us who like the function of government and those who don't. Those to whom conspicuous place means much. *Pulchrum est*,

said the Latin poet, *digito monstrari et dicier "Hic est."* But for others it means little. Many and many a man would remain absolutely honest and devoted in political service if his tenure were as that of a judge or a professor. But what college would it be where the professor must be voted and re-voted into office by the students; and what sort of criminal court where the judge was elected by the burglars.

People accustomed to our modern ways of thinking would at once ask by what kind of legislation we are to alter our government from the party democracy of to-day to the honest efficiency of to-morrow: from the government of those who can't, to the government of those who can. It is plain that in the last resort, in some fashion or other, the nation, the mass of the citizens, must rule. We cannot surrender ourselves like Æsop's frogs to King Stork. Against every official, every administration, there must be some resource or some appeal. How are we to frame it?

But to put the problem in this form is merely to show that one does not understand it. We have become the children of legislation. We reach out for a law. For each and every social ill our misguided democratic system has made us demand a remedy in the form of a statute. We have grown to despair of individual morality. We legislate ourselves into sobriety, into early rising, into Sabbath keeping, into thrift. We no longer realize that the law is only the letter; behind it is the spirit or it fails.

The truth is that effective legislation must follow public opinion and not precede and coerce it. It is not the burglary laws that keep most of us from theft. It is something out of which the burglary laws arose.

So with the form of government with the revision of democracy. As soon as the mass of the people come to see that what is needed is honest government, efficient government, technical government, entrusted to people who make it their work in life, the change will come of itself. We cannot frame it first, like an American party platform. First must come the "ideal," then as a consequence the fact, and last of all the legislation.

Let me in conclusion summarize my views on the revision of democracy by repeating a story told me by some of my

soldier friends, veterans of the war. During the short period in which a Portuguese contingent was in the front line, there took place a fierce bombardment by the Germans. A Portuguese general was presently seen, at the head of his troops, running at full speed, towards Portugal. On the way he kicked aside a fleeing rabbit out of his path with the words, "Let a man run who knows how."

That great military genius had grasped the essential principles of human progress.

ECONOMIC NATIONALISM

H. A. INNIS

This paper cannot do more than pretend to indicate the drift of economic nationalism and it must remain content with an outline of the indications which seem to point in a certain direction. I shall proceed from the following conclusion of a careful student of the subject:

Peculiarly basic has been the development of large scale machine industry, with the impetus it has afforded to the growth of middle class and proletariat, to the improvement of means of transportation and communication and to the rivalry of peoples for economic advantage. In the main nationalism has flourished most abundantly in national states which have been most industrialized and the advent of the industrial revolution among 'oppressed' nationalities has been the most potent factor in arousing their national consciousness and in enabling them to create national states of their own. It has been naturally so. For, while industrialization favors commercial intercourse between peoples, it is even more conducive to commercial intercourse within each nation. It is easier and more natural to do business with persons who speak and read one's own language than with others. Exports and imports of an industrialized nation do not equal in value what it buys and sells at home. Credit and banking function nationally far more than internationally. Labor is organized by nations and if it has international affiliations it subordinates them to what it considers to be its particular national interests. There is much more travel by people within a nation than between nations. There is more news in the public press about one's nation than about others.¹

The trend of industrialism has strengthened the trend of nationalism. Industrialism based on coal and iron and on all the year round water transportation implied a world dominated by the Atlantic basin and by areas with ample reserves of these basic commodities. Population density in the coal producing regions assumed transportation and finance for the movement of raw materials inward and of manufactured products outward. Areas with access to cheap all the year round water transportation became dominant as termini of ocean routes and of land routes and were supported by nuclei of economic

¹ C. J. H. Hayes, "Nationalism," *Encyclopedia of the Social Sciences* (New York: Macmillan, 1933), Vol. XI, pp. 231-48. See also C. J. H. Hayes, *The Historical Evolution of Modern Nationalism* (New York: Smith, 1931), and *The State and Economic Life* (Paris: International Institute of Intellectual Co-operation, 1934).

activity developed in smaller metropolitan centres. These centres have gradually emerged to a position of relative financial independence and metropolitan stature.

The twentieth century and especially the post-war period has witnessed an expansion of new areas, beyond the territory dominated by cheap water transportation and abundant supplies of coal, to territory in which hydro-electric power and oil have played an important role. Oil and electric power have contributed to the flexibility and expansion of metropolitan centres based on coal and to the widening of the whole base to areas formerly handicapped by a lack of cheap supply of that commodity² — for example the opening of the Pacific, or Russia

² "The pre-war development of extreme specialization has been not merely arrested but even reversed . . . pre-war production was based upon steam power and the use of steam gave the coal-bearing regions of the world so great an advantage that the benefits of geographic concentration were obvious and of extreme importance. Post war production has been based largely, and to a rapidly increasing extent, upon oil and electricity which favor a wider distribution of industry not only within a country but also between different countries. Natural advantages tend to diminish in respect of a large group of industries: differences in real costs tend to be reduced. For this reason the penalty suffered from the pursuit of a policy of economic nationalism is not so severe as of old." J. H. Jones, "A Policy for Sterling," *Lloyds Bank Monthly Review*, February, 1934. "Over an increasingly wide range of industrial products and perhaps of agricultural products also, I become doubtful whether the economic cost of national self-sufficiency is great enough to outweigh the other advantages of gradually bringing the producer and the consumer within the ambit of the same national economic and financial organization . . . As wealth increases, both primary and manufactured products play a smaller relative part in the national economy compared with houses, personal services and local amenities which are not the subject of international exchange; with the result that a moderate increase in the real cost of the former consequent on greater national self-sufficiency may cease to be of serious consequence when weighed in the balance against advantages of a different kind." J. M. Keynes, "National Self-Sufficiency," *New Statesman and Nation*, July 8, 1933 (Vol. VI) pp. 36-7. See also the *Yale Review*, Vol. 22 (Summer, 1933), pp. 755-69, and E. A. Robinson in the *New Statesman and Nation*, July 22, 1933 (Vol. VI), p. 102, pointing out that the size of the national market has increased so greatly that for some products no considerable economy would be likely to be obtained from adding foreign markets and further increasing the scale of production. The trend has been toward exhaustion of economies of specialization; see also a criticism of N. Kaldor, *ibid.*, August 5, 1933 (Vol. VI), p. 158.

and northern Canada. The last regions of expansion have been staked.

The marked realignment of the post war period was in large part a result of the contributions to mechanistic improvement of the war period, of the application of new sources of power to transportation, for example the aeroplane, and of a major technological transport improvement the Panama canal. The expansion of mining, and of wheat production, and the Ottawa agreements may be cited as results of interest to Canada. The Hochkapitalismus of Sombart reached immediately before the war and based on coal and coke and iron and steel was rounded out in the post-war period by oil, hydro electric power and the new industrial metals.

Hydro-electric power development implies a geographic background of adequate rainfall and uneven topography and a region relatively inaccessible to coal in which its competitive advantage is enhanced. Regions formerly under a decided handicap from the standpoint of industrialism as dependent on coal become endowed with decided advantages. Power sites involve enormous initial investments of capital in many cases requiring support of the state. The significance of overhead costs necessitates expansion of power consumption to capacity and in turn the development and encouragement of exploitation of natural resources in the growth of basic industries, such as mining and pulp and paper, and of more highly integrated industries. Whereas hydro-electric power development is strongly characterized by regionalism and tends to be concentrated in a few areas, oil is essentially a basis of mobility since it is widely available and provides its own means of transport. Its impact has been primarily on transportation and distribution. Areas with emphasis on labor rather than on supplies of coal and iron have succeeded, as in the case of Japan in the production of textiles, in expanding the range of markets. Production of raw materials dependent on cheap supplies of power has increased materially for example in the case of wheat as it has been influenced by the tractor, the truck and mechanization generally. In conjunction with the Panama canal, oil burning vessels have increased the range of markets for Pacific countries and introduced disturbances of far reaching proportions.

New sources of power strengthened tendencies emerging from the war. Emphasis on the iron and steel industries and on the wide range of industries linked to war demands brought fresh impetus to post war industrialism. The peace consolidated the gains of industrialism of the war. New nations were carved out and industries which had grown up during the war were supported by nationalism and tariff barriers. Competition from highly industrialized areas with industries stimulated by the war was checked in areas more recently industrialized. Nationalist sentiment and organization developed during the war provided support for tariffs to protect new industries. In turn competition from more recently industrialized areas based on hydro-electric power and the drive of overhead costs, and on oil, on improved technique, and on less exhausted natural resources was followed by tariffs imposed by highly industrialized regions; to protect older industries based on coal and iron, more exhausted natural resources, less tractable labor, and plant affected by depreciation through obsolescence; and to stimulate new industries based on new sources of power as in Great Britain. Nationalism becomes cumulatively more intense. Migration of improved technique and the shift from primary production to secondary production has been hastened by expanding purchasing power and a wider range of markets in the large number of new industrial areas. Increased mobility through transportation facilities particularly evident in the completion of road systems in the last decade and the advantages of new plant and equipment working on lower cost raw materials contributed to the movement in these areas.

The pressure of industrialism based on new sources of power has been most striking in continental regions and large political organizations. Freedom of trade, diversified resources, mature industrial equipment (including the Panama canal), enormous supplies of capital and skilled labor contributed to the expansion of the United States in the boom of the twenties. Centralized political control, and in turn concentration on the development of natural resources through application of mature capital equipment and skilled labor imported from highly industrialized countries culminating in five year plans in the second large continental region, Russia, combined with expansion in the United States to give capitalism a final strong upward swing which collapsed in 1929. State activity in

Europe supported restoration of the devastated areas and credit organization characteristic of the boom in the United States contributed to reconstruction of the capital equipment of Europe following inflation. The marked expansion of credit and of capital equipment in the twenties assumed the efficiency of private enterprise and the support of weaker economic and political organizations to mention only the guarantees of the Canadian government of borrowings of the Canadian National Railways, and loans to Australia, South American republics and to Russia. The pressure of continental industrialism during a period of expansion was followed by resistance on the part of more recently industrialized areas in the form of protection to infant industries. Moreover, the importance of state support for capital borrowings strengthened this trend through reliance on tariffs as a source of revenue to meet interest on loans. United States tariffs accentuated this trend by making it difficult to export goods in payment. More recently industrialized areas, more dependent on production and export of raw materials have been subjected to the effects of the more rapid decline in prices of raw materials and have found it more difficult to meet the burden of fixed charges of capital borrowed during the boom period. They have been subjected as a result of extensive state intervention to heavy fixed charges partly through more rapid decline of prices of raw material and partly through depreciation from obsolescence which accompanied the introduction of new sources of power. In Canada motor competition in areas with heavy traffic density and competition of the Panama canal have been partly responsible for larger railway deficits to be borne by the government.

Nationalism fostered by the war and the boom period became more intense as a result of depression. Dumping from more highly industrialized countries presents serious problems to industries of recent growth in weaker industrial regions particularly in the form of unemployment and is followed by increased tariffs and anti-dumping legislation. The national policy of 1878 in Canada followed the long period of depression in the seventies, and the present Canadian tariff belongs to the present depression. Relative lack of governmental machinery in weaker industrial regions tends to throw increased burdens on customs administration which becomes in turn a means of controlling exchange, of relieving unemployment, of producing

revenue and of maintaining railway rates. Difficulties become evident in internal rigidities and unequal spreading of the burden. Prices of raw materials for exports exposed to world competition crush the primary producer between declining returns and relatively stable costs in terms of prices of manufactured products, of interest on debts, and of railway rates.

Within national boundaries the effects of these strains have been evident in the increasing strength of metropolitan centres. New sources of power and increasing industrialism have been responsible for increasing urbanization and increasing dominance of the city. Democratic institutions accentuate the influence of urban population and metropolitan centres and in turn mechanization strengthens the position of centralized control. Improved communication such as the press and the radio, improved transportation, and the development of modern architecture, for example, the skyscraper, tend to stress similarities of language and ideas. Expansion of the pulp and paper industry has supported intensive advertising and revolutions in marketing essential to the demands of the city. It has coincided with the decline of editorials and of freedom of speech, and the emergence of headlines and the modern newspaper with its demands for excitement including wars and peace to appeal to a large range of lower mental types. The coincidence with the advent of radio of dictatorship in Russia, Germany, Italy, Great Britain, the United States or Canada is not accidental. Mechanization moreover implies more effective utilization of physical force. Machine guns are effective keys to the city. Metropolitan centres have continued to play increasingly important roles in the war, the peace and the post-war period. The peace set its seal on the ambitions of older European metropolitan centres in the breakup of large political units. New nations brought into existence by the Treaty of Versailles reflected the demands of Prague and other centres in opposition to Vienna. Further realignments in the post war period have continued in the increasing control of metropolitan centres, the weakening of competitors, the decline or disappearance of powers of subsidiary units such as the state or the province in Germany, Italy, the United States, and Canada.

Nourished in a friendly fashion by the state, the metropolitan region, without any formal sort of constitution and until recently without plan,

has grown to be a potential rival of the state. Born of a mixture of physical and economical convenience it promises to take on a measure of cultural unity. Under the guidance of business men of large calibre, it is likely in America to develop a policy that leads at once to the conservation of regional interests and the advancement of general social welfare. Rooted as it is in the facts of nature rather than in political expediency, it promises to have vitality and endurance.³

Metropolitan centres in recently industrialized regions which are still important producers of raw materials are strengthened in part by new sources of power⁴ and lower prices of raw materials in contrast with metropolitan centres in highly industrialized regions which have been weakened by higher prices of raw material incidental to protection and economic self-sufficiency, and particularly in relation to wheat. The trend of modern industrialism has been toward the more recently industrialized regions with new sources of power, and less exhausted natural resources, but this trend has been strengthened by cumulative forces in economic nationalism. The results have been evident in the increasing disparity between standards of living of urban and rural population — a disparity accentuated by the increasing strength of established metropolitan centres as opposed to more recently developed centres. The political strength of metropolitan areas implies support of the depressed classes in unemployment relief and the forging of political weapons to operate more effectively to advance metropolitan demands. Recent legislation in the United States tends to reflect the interests of large manufacturers through its emphasis on price fixing arrangements and in spite of determined efforts to relieve agriculture and the exposed industries. The struggle between miner and peasant which has characterized the industrial revolution becomes progressively more intense. Relief through the application of science and closer integration holds little promise, since scientific advance has been particularly important in the production of raw materials. Pressure of technological innovations particularly in large political units with free trade, a large market,

³ N. S. B. Gras, "Regionalism and Nationalism," *Foreign Affairs*, Vol. VII, No. 3 (April, 1929), p. 466. The problem of government following metropolitan expansion has become acute — for example conflicts with suburban areas.

⁴ See R. D. McKenzie, *The Metropolitan Community* (New York: McGraw, 1933), with reference to the effects of motor transportation.

and adequate resources tends to be restricted with the growth of nationalism to internal development and in turn leads to the development of internal resistances which take the form of regionalism. Internal pressure again supports attempts to restrict imports of goods produced by lower cost producing regions and reinforces the demand for higher tariff barriers. The results have been evident in the growth of regionalism in the United States, in the recent legislation of British Columbia, and Alberta, and the unrest of the maritimes and threats of secession in western Australia. Failure to accept the St. Lawrence waterway may be interpreted in part as a reflection of the increasing strength of New York and of Chicago as metropolitan areas and of the increasing difficulty of political organizations in breaking the grip of rigidities characteristic of rail transport.

The development of rigidities has strengthened the growth of nationalism and in turn of regionalism. Large political organizations adapted to periods of expansion become inefficient with the decline in importance of virgin natural resources, and metropolitan areas become increasingly significant. The position of the state in the more recently industrialized areas especially in relation to guarantees of loans to transportation implies ability to rely on general taxing power rather than direct returns and involves a lower interest rate, but this is offset by larger capital outlay than is involved by reliance on private enterprise. Guaranteed fixed interest rates on large capital outlay creates serious rigidities in an economy dependent on raw materials subject to wide fluctuations in price and yield. Governmental guarantees imply an intensification of nationalism on the part of the borrower and the lender. The post war business cycle has been enormously influenced by the rigidities which have emerged with nationalism.⁵ Rigidities of labor costs in Great Britain and Australia have paralleled rigidities of capital charges, railway rates and interest levels in Canada. The importance of fixed capital equipment characteristic of modern industrialism and particularly in recently industrialized continental countries with emphasis on trans-

⁵ See W. A. Mackintosh, "Gold and the Decline of Prices," *Papers and Proceedings of the Canadian Political Science Association*, Vol. III, (1931), pp. 88-110.

portation, on hydro-electric power, and on the expansion of metropolitan centres has emphasized the increasing significance of overhead costs. Heavy fixed charges and overhead costs particularly in continental countries were responsible for policies favoring marked increase in the production of raw materials. These policies became more effective with the addition of motor power notably in the production of wheat⁶ and of minerals. The impact of overhead costs in increased production of raw materials and declining prices has coincided with the extension of fixed charges. Increased specialization in production of raw materials and decline of self-sufficiency involved further extension of a monetary economy and additional burdens with the depression. The low price of raw materials necessitated additional support of the state in relief measures and in market control in various forms. Within the political units involved, metropolitan areas have gained with lower prices of raw materials and have been forced less quickly to adjust prices of finished products particularly with the coincident existence of demand from raw material producing regions which have gained in importance as a result of the depression⁷ — gold mining in Northern Ontario. Prices of foodstuffs (wheat) have been held down further by the spread of nationalism in more highly industrialized regions and the trend toward self-sufficiency. As a result of the importance of overhead costs, in its effects on inelastic supply and especially joint supply, the price level has become an uncertain and far from delicate indicator in adjusting supply and demand. The state has been concerned either with attempts, as in Canada, to restrict production and to maintain railway rates, interest levels and other indications of rigidity in order to avoid the vicious circle of inflation on the ground of attracting capital, or with attempts to reduce interest rates and to eliminate rigidities rather than to restrict production as in the

⁶ See J. F. Booth, "Some Economic Effects of Mechanization of Canadian Agriculture with Particular Reference to the Spring Wheat Area," *Proceedings of the World's Grain Exhibition and Conference*, Regina, 1933; A. Stewart, "The Economy of Machine Production in Agriculture," *Essays on Canadian Problems* (Royal Bank of Canada Essay Competition 1930-1) Vol. IV (Montreal: Royal Bank of Canada).

⁷ E. A. Forsey, "Equality of Sacrifice," *The Canadian Forum*, November, 1933 (Vol. XIV, No. 158).

case of Australia. Canada with inadequate, badly co-ordinated, machinery stands on the one hand in danger of being burned at the stake of natural resources and on the other hand of being boiled in the oil of unrestricted competition. It is only necessary to mention the writings of J. M. Clark and the pronounced swing of economic theory to problems of monopoly rather than competition to note the reflection of recent trends in economic development.

The implications of the increasing importance of overhead costs are significant to capital and to labour. Increasing intervention of the state may involve a marked improvement in efficiency and offset in part the stifling effects of rigidities. The pronounced swing from gold and the shift to a commodity basis for the value of the monetary unit is evidence even of the possibility of weakening rigidities! But the difficulties which have involved these developments, as well as the developments themselves, tend to restrict capital movements. Extensive borrowings of recently industrialized countries for purposes of transportation, urbanization and the war have involved a long term burden of fixed charges at a relatively high level and marked increase in production of raw materials for export with consequent lower prices with which to meet heavy charges payable abroad. The effect of uncertain prices of raw materials has been evident in the freezing of short term credit shown in the insistence of the banks on governmental guarantees for the handling of wheat and the decline of speculative activity. Governmental control weakens speculative interest in commodities and securities. Internal control and the shift on the part of new countries from capital importing to capital exporting regions or the marked decline of capital movements between countries implies increasing internal absorption of surplus capital and with determined financial control may be followed by lower interest rates. Increased taxation as a result of the war either directly or by inflation has wiped out capital reserves and the capital supporting middle classes. The emergence of urban centres to metropolitan status assumes not only financial independence but with the demands of modern democracy the absorption of capital surplus in government services. Increasing complexity facilitates bureaucracy and dictatorship. Financial institutions such as insurance companies or investment trusts

engaged as capital distributing organizations tend to become more concerned with internal investments which promise greater security. Skill and technique are moved more easily than commodities. Henry Ford prefers to establish plants in other countries rather than export automobiles from the United States.

Population like capital has declined in mobility. Democracy, nationalism and regionalism are involved in vicious circles which imply lowering of the standard of living and protection in unemployment relief and restrictions on immigration. Restriction of immigration is followed by more rapid distribution of population within nations and in turn by the growth of metropolitan regions at the expense of regions producing goods for export. Increasing industrialization and urbanization implies higher standards of living for urban than for rural labor and inability to promote readjustments by back to the land movements or immigration of agricultural labor from European countries. The effects are evident in areas formerly supporting substantial migration such as Italy and the activity of the state in developing industrialism to absorb population and in areas such as Japan which has attempted to combine industrialism with population increase and an improved standard of living. In highly industrialized countries, restrictions on immigration and urbanization have been accompanied in the main by a decline in the birth rate. Lowering of the death rate and decline of the birth rate imply larger numbers of the population in advanced age levels and less flexibility. The war accentuated the contrast between upper and lower age limits and in the youth movements contributed to dictatorship.

The rapid strides of technological improvement which accompanied the war and the use of new sources of power have involved relative exhaustion of the last virgin natural resources. The disappearance of free land has coincided with the rise of nationalism.⁸ The pressure of population on the land has been interpreted as a basic factor in the marked emigration of the last century and the discontent which has

⁸ See C. R. Fay, "Adam Smith and the Doctrinal Defeat of the Mercantile System," *Quarterly Journal of Economics*, Vol. XLVIII, No. 2 (February, 1934), pp. 304-16.

characterized the trend toward nationalism in older agricultural regions for example Ireland, Russia, Germany and other countries.⁹ Rise in cost of production, especially transportation, in the agriculture of new countries strengthens the position of agriculture in old countries. Consequently demands for more adequate domestic wheat supply become less difficult to meet and restricted imports involve less serious burdens on the general economy. Pressure of natural resources and sudden disturbances which accompanied new developments will tend to be less severe. The determining factors in recently industrialized countries have spent their force and flexibility has declined. The trust movement has solidified industrial development. Inventions are patented and placed in cold storage. The metal industries have been influenced to an increasing extent by the market for scrap and to a lesser extent by new ore production. The costs of protecting established industries based on more exhausted resources tend to decline. On the other hand demand tends to become saturated and stable. We have begun the process of abandoning rather than constructing railways, of restricting rather than increasing wheat production, of closing down pulp and paper plants rather than opening them. We avoid saturation in the automobile industry by new models. We protect obsolescence in the iron and steel industry by substantial tariffs. The enormous impetus of the war to iron and steel industries and the relatively light demands, of armaments following the peace treaty, and of railroads with the competition of motor transport, created a surplus of steel for the construction of skyscrapers, bridges and motor cars. But the vital relationship of militarism to capitalism and the modern state which has become to a large extent a collector and distributor of funds for war purposes persists. The depression closed these new outlets for iron and steel products and has led to search for new possibilities which have been satisfied in part by minor wars, the manufacture of beverages following the repeal of prohibition, and the cleaning of slums. Armaments and housing supported by the state appear at the moment the more promising outlets and these strengthen nationalism and metropolitan growth. Russia remains as a possible safety valve for

⁹ Isaiah Bowman, *The New World* (London: Harrap, 1929).

capitalism. The enormous increase in production of raw materials which followed the pressure of the iron and steel industries and new sources of power, whether it is fish or wheat has so disorganized the price structure that it restricts the possibility of financial support to further expansion of iron and steel.

Continental areas with emphasis on capitalistic types of development in terms of heavy equipment, mass production and overhead costs have through mature metropolitan regions witnessed the emergence of rigidities. Maritime areas characterized by increasing density of population without relief by immigration and with access to new sources of power such as Italy and Japan have concentrated on types of industrialism which stress the importance of labor — for example the textile industry. Low prices of raw materials and accessibility to wheat and wool as in the case of Australia, and to products of the Atlantic basin in the case of the Panama Canal have supported strong competition with established textile industries in England and the United States. Retreat from the markets of Pacific areas by Atlantic basin industries accentuated competition between nations in this area and in turn substantial protective duties as in the case of Canada. Continental areas characterized by rigidities tend to be exposed to competition from maritime regions characterized by flexibility.

In conclusion, we have reached the stage in which natural resources in the form of free land have relatively disappeared. In continental countries the importance of fixed capital especially as to transportation, and in turn, of overhead costs, and the importance of new sources of power — oil and hydro-electric power — have involved a marked increase in the production of raw materials and a decline in price.¹⁰ Cheap raw material, new sources of power and the opening of the Panama Canal have hastened the development of the Pacific and particularly the industrial growth of Japan. Competition from cheap raw materials involved depreciation through obsolescence on a wide scale particularly in established industrial regions based on coal. The rigidity of the credit structure in the coal regions and depreciation through obsolescence has necessitated the

¹⁰ M. T. Copeland, *Raw Material Prices and Business Conditions*, (Boston: Harvard University, 1933) Business Research Studies, No. 2.

introduction of protection and in turn of the complex machinery of economic nationalism. We are faced with the problems of overhead cost on a vast scale, prices have become less satisfactory as indicators, the solution depends on the introduction of economic intelligence which avoids monopoly and perfect competition — nationalism with intelligence — an intelligent dictator (e.g. civil service) preferred. Democracy in its attempt to force governments to meet the difficulties of an increasingly complex economic development has been met with the loss of leadership during the war and the rise of the youth movement, and has been forced to emphasize centralization of control and various forms of dictatorship.¹¹ Political duplicity has become an asset of first importance in democratic countries. The stakes are not the downfall of western civilization and the beginning of the new middle ages but a standard of living.

The implications of the struggle for Canada are serious.¹² Canada developed at the latest stages of modern industrialism and is among the first to feel the effects of the turn. The importance of the state, reliance on production of raw materials for export particularly wheat and the rigidities of continental development create serious problems of internal maladjustment as shown by quotas, bonuses, unemployment relief, the breakdown of provincial federal relations and the like. The sheltered metropolitan areas tend to impose burdens on regions exposed to world fluctuations. These problems have already contributed to a marked extension of governmental machinery and governmental machinery involves more machinery. It would appear probable as has been suggested that areas producing a surplus of raw material may be forced to extend the two price system by which world market price becomes a price of dumped goods and domestic prices are increased by protection.¹³ The resulting disturbances can be

¹¹ J. Coatman, "Economic Nationalism and International Relations," *Political Quarterly*, Vol. IV, No. 4 (October-December, 1933), pp. 561-574.

¹² See "Canadian Trade Policy in a World of Economic Nationalism," *Queen's Quarterly*, Vol. XLI, No. 1 (Spring, 1934), pp. 81-98.

¹³ See also C. Schrecker, "The Growth of Economic Nationalism and its International Consequences," *International Affairs*, Vol. XIII, No. 2 (March-April, 1934), pp. 208-225.

prevented only by recourse to the new devices which have already made substantial advances. Exchange controls, quotas, dumping legislation, empire agreements, regional arrangements may endanger or offset the implications of the decline of the most favored nation clause, Elliotism, economic autarchy, and the new weapons which have grown up to take the place of war, according to the wisdom with which they are designed. "The new internationalism is upon us."¹⁴ No country stands to gain or lose more than Canada.

¹⁴ C. Foreman, *The New Internationalism* (New York: Norton, 1934).

THE NEW ECONOMIC NATIONALISM AND CANADIAN AGRICULTURE

J. E. LATTIMER

The general aim of what is termed the new economic nationalism is a determined effort to attain a greater degree of self-sufficiency. A prominent feature of this development is to reduce as far as possible dependence on foreign sources of food supply. This move apparently is deemed an essential step in the somewhat general attempt to put the industry of agriculture again on its feet. The cause, or causes, method of development and influences of this movement constitute an interesting though somewhat difficult study.

When bad economics has a tendency to drive out good economics, as bad money drives out good money and for a somewhat similar reason, on account of rapidity of circulation, it is particularly necessary to pay some attention to definition of terms. The word new in the title of this paper suggests that the economic nationalism of the present era is either a phenomenon with which the world is unacquainted or a different form of economic nationalism from that which the world has previously known. It will be necessary to canvass both these possibilities as it is clear that the present movement embraces some policies previously tried and discarded. Indeed the present era of economic nationalism has been referred to as the second mercantilistic period which assertion has offered the opportunity of asserting that such a claim amounts to libel of the writers of the mercantilistic period. Though these commentaries are worth notice, unfortunately perhaps they do not obviate the necessity of drawing some comparison between the economic nationalism of two centuries since and that which is now termed new.

There is one striking similarity between the present economic nationalism and that of the period known as the mercantilistic era which is the agreement that agriculture is the least profitable of industries. Agreement on conditions but difference in treatment is apparent in the two eras. Mercantilists of two centuries since, at least in Britain, while

allowing that agriculture was not a remunerative calling, insisted on cheap food as a necessary foundation for international competition and trade. On the other hand, to-day public policy in Britain as well as in many other places, admitting that agriculture is not at present a remunerative calling, is disposed to overcome the difficulty by regulation even though it results in making food more expensive. This is a remarkable difference in the new economic nationalism as contrasted with early mercantilist doctrine, this is the contrast which apparently offered the opportunity of claiming that early exponents of mercantilistic doctrine have recently been libelled and this is the contrast which is most essential for a discussion of economic nationalism in relation to agriculture.

It was pointed out some time since that some of the most valuable lessons in economics could be studied the most profitably near the extensive margin of cultivation. Some of us who have been closely in touch with agriculture have recently wondered if something could not be added to economic theory by a study of the margin of remuneration. Perhaps the new economic nationalism is groping in this direction. National policies recently adopted in relation to agriculture are significant both in regard to international trade and economic theory. Between the two periods which have agreed that this industry offers the least reward for effort there arose a group, the first terming themselves economists, who claimed that agriculture was the only industry yielding a "*produit net*" who proceeded to make sport of mercantilistic doctrine.

This group became prominent during a very critical period in France, based their studies on the revelations of travellers and officials, notably an engineer and a tax collector, and decided that most of the difficulties were man-made and could be overcome with the will and the wisdom necessary. They were perhaps no more interested or willing to improve conditions than the engineers, technocrats and authors of the present day. The consistent, universal and simple policy of the natural order—*laissez-faire*—was never applied to any great degree although it had the blessing of the author of *The Wealth of Nations*. Perhaps on account of the blessing

mentioned, this doctrine was more influential in Britain than elsewhere but even there it was soon discovered that there were many things which could not run themselves and before the corn laws were repealed labor regulations were established. Now within a century corn laws have been re-established. Perhaps this policy was not adopted on account of its advantages receiving insufficient publicity. Perhaps this policy may still be resorted to when the world becomes more willing and better prepared to accept it, but it would appear that the real reason why it never yet received much of a chance was the lack of will to try it out.

It is conceivable that a society might exist which could derive advantages from a policy of *laissez-faire*. Whether that is possible, however, still remains a mystery as such a policy has never been followed in its entirety or to its logical conclusion. The nation that had the temerity to approach the nearest to this ideal policy found it necessary to retrace its steps while yet far short of its final application.

The assumption that the new economic nationalism is a necessary substitution of economic planning for *laissez-faire* requires correction. Economic planning has always prevailed in a greater or lesser degree since Lycurgus was able to persuade the Spartans to use iron as a medium of exchange—when silver and gold were available—in order to prevent over-trading and the amassing of fortunes. The present era finds the world in general and many countries in particular ill-satisfied with the results of the planning recently in vogue. There are two possible avenues open. One is to remove the interferences with price and with trade which have been the accumulation of decades if not of centuries. This method appears to be favored in part by economists generally as wherever international groups of economists foregather, and there have been many such gatherings recently, there is one recommendation which may always be expected, that being the recommendation of fewer trade restrictions. When they depart for their respective countries, further trade restrictions come into vogue, not always tariffs, it may be currency depreciation, export bonus or other methods of influencing price. The other method is more and better planning than has been recently resorted to. This

appears to be the most feasible and is the one now being followed.

Such a policy is necessarily developed nationally. Hence students of what was once termed the dismal science, but which recently appears in some sections at least not entirely incompatible with humor, must have marvelled at the importance given to the advantages which might be reaped from international division of labor in the discussion of economic theory and the amount of time required in the discussion of the application of the science to explain why this attractive program is not being carried out. If proclaiming the advantages of international trade is not to remain purely a pleasant, pedagogic pastime it may be necessary to re-examine the theory upon which these advantages repose.

Though some dependence of other nations on the corn of Egypt was recognized in ancient times and the spices of the East and the perfumes of Arabia received considerable publicity, world trade of any great importance is of comparatively recent development. Holland was one of the early specialists in doing the trading of the world. About two centuries ago a somewhat violent controversy raged in Britain over the question of why Holland was more prosperous than Britain at that time. Among the many pamphleteers, Sir William Petty,¹ in 1690 attributed the prosperity of Holland to the fact that Holland rid herself of two ill-paid occupations, foot soldiering and husbandry. Infantrymen could be hired from England, Scotland or Germany to venture their lives for six-pence a day while they themselves followed such trades whereby the meanest of them make six times as much. With regard to the second necessary vocation, that of husbandry, he affirmed that if all the husbandmen of England now earning 8d. per day could become tradesmen (mechanics) and earn 16d. a day (while 2s. and 2s. 6d. was usually given) that it would pay England to throw up husbandry and put their grain growing on the Polanders and their cow keeping on the Danes. To what extent this policy was followed and its influence on world trade as since developed is well known.

¹ Sir William Petty, "Political Arithmetic," *Later Stuart Tracts*, (London: Constable & Co., 1903), pp. 24-5.

The early theory of international trade as laid down by Mun was that the necessary rule to follow was always to sell more to each nation than was consumed of theirs in value. The absurdity of this as generally applicable was soon realized and frequently pointed out. The fact remained that such a policy could and did prevail for a time in respect to the few countries that could and did specialize in the more newly developed crafts. And the present revival of bi-lateral trade agreements is not far removed from the theory of trade set forth by Mun.

At a later date the admission that trade between countries might be mutually profitable evolved and it was pointed out by classical economists that trade could be carried on internationally between two countries even where one country had an advantage in the production of all varieties of goods. The law of comparative advantage whether illustrated with shoes and hats or x 's and y 's is a very attractive black-board exercise—provided that transportation and the expenses of exchange are left out of consideration for the purpose of simplification.

Even when cost of transport and expenses of exchange are omitted it is conceded that the entire advantage may sometimes be reaped by one country² and that in some cases depending on the pressure of demand the expenses of carriage and exchange may be forced upon one country³ though the tendency will usually be for the advantages to be more or less equally divided.⁴ This generally acceptable theory indicates that a condition might develop, in a buyer's market, where the advantages of international trade might be one-sided. Such a condition has recently developed as we shall later see.

Whether conditions present what is termed a buyer's or seller's market may even influence the public interpretation of the term "free trade." This term has altered somewhat in different times. In the seventeenth century this term meant freedom to export bullion or the right to trade without being a member of a privileged company. In the following

² C. F. Bastable, *The Theory of International Trade* (London: Macmillan, 1903), p. 38.

³ *Ibid.*, p. 35.

⁴ *Ibid.*, p. 37.

century it meant freedom of export, an interpretation which we ought now fully to appreciate, but the meaning of this term in this discussion is the logical one given by Bastable:

the removal of all artificial restrictions on, or encouragements to, any particular industry; the levying of duties for the purpose of obtaining revenue and from no other motive; the levying of equivalent excise duties where customs are requisite; in short, the abandonment of the efforts, once universal, to divert industry into some channel into which the action of the normal economic forces would not have directed it.⁵

In the meantime entirely satisfied with the theory of international trade based on the law of comparative advantages and omitting transportation costs and the expenses of making the exchange for the sake of simplification, there develops gradually and most unostentatiously interferences with rewards in respect to transportation costs and selling charges generally. So long as these charges were declining rapidly or in proportion to the decline in the real cost of securing primary products from the far corners of the earth through improvements in transportation the theory was not seriously criticized. When, with the assistance or acquiescence of economic theory, collective bargaining and forward wage agreements were secured for workers in transportation, mechanics and practically all vocations outside of the producers of raw products, and when the cost of transporting becomes greater than the production of certain goods, such as for instance barley in Rumania,⁶ even wheat in the peninsula of Asia Minor,⁷ to say nothing of coarse grains in western Canada, and when marketing and distributing charges generally have absorbed two-thirds of the consumer's dollar, as was claimed to be the case in the United States in 1932; then develops a greater degree of self-sufficiency with a consequent falling off in trade both domestic and foreign. When this condition evolves it is not so satisfactory to leave out transport and exchange costs for the purpose of simplification.

⁵ *Ibid.*, p. 129.

⁶ Royal Institute of International Affairs, *World Agriculture* (London: Oxford University Press, 1932), p. 106.

⁷ G. Stratil-Sauer, "Cereal Production in Turkey," *Economic Geography*, Vol. 9, No. 4 (October, 1933).

Specialization allows savings but it requires exchange. Specialization by sections also has advantages but here, too, difficulties of exchange arise. If prices become for any reason out of line with one another the natural corrective resorted to is a greater degree of self-sufficiency. This applies to individuals, groups, provinces or nations. Mutually profitable international trade depends upon the comparative rather than the absolute advantages of any given section over its competitor.

Expansion in international trade, more particularly in farm products, has generally been most pronounced during periods of armed conflict. It is generally accepted that one of the reasons for economic nationalism is security in time of war. It would appear that there are some additional reasons as all nations are not equally aggressive and yet all are more or less affected by this national self-sufficiency aim at the present time. It may be partly from compulsion when started by a small number of countries. Yet apparently there is some further underlying reason for a practice now becoming so general.

The recent World War compelled many nations previously dependent only on home produced food supplies temporarily to reduce their tariff barriers.⁸ These barriers were not restored until reconstruction of devastated regions was almost entirely completed about a decade after the armistice. This period afforded the virgin lands of the western part of North America to reap a long anticipated harvest. This great expansion of trade in farm products as well as other things was financed largely on deferred payments. International trade could be carried on now or at any time on the basis of deferred payments—provided a country could be found able and willing to take the risk. International trade on deferred payments proved temporary. Some other basis appears to be necessary if such trade is to prove permanent.

The end of the third decade of the century found western Europe had regained pre-war production level, the newer countries more than able to make up deficiencies in Russia

⁸ *World Trade Barriers in Relation to Agriculture*, (Washington: Government Printing Office, 1933), Senate Document 70, pp. 42-3.

and eastern Europe and the flow of international credit ceasing. Supplies of raw materials and foodstuffs generally increased, prices dropped and farmers generally endeavored to increase revenue by increased volume. From 1929 to 1932 stocks of manufactured goods declined while stocks of primary products increased.⁹ Unrestricted competition threatened to kill the craft that practised it¹⁰—when other crafts pursued a different policy.

Few countries were able to take advantage of the low prices of farm products. The cessation of long term credit internationally was followed by resort to short term loans, moratoria, and rigorous supervision and restriction of foreign exchange. The difficulty of moving money added to the difficulty of moving goods brought about not only by tariffs but also by embargoes, sanitary regulations, milling regulations and finally quota restrictions. This is the picture appearing to the seller. The buyer observes, however, exports bonused directly or indirectly by various methods, including depreciation of the currency, and seeks the shelter and protection of anti-dumping regulations. The new economic nationalism is a fight against falling prices. Prices of farm produce fell fastest and farthest, hence we find a leading feature of the new economic nationalism is a determined endeavor to assist the industry of agriculture even though it makes food more expensive.

This aim is in addition to the desire to become self-sufficient through fear of war. The need for security may, however, be felt by the most peace loving peoples. Many of the smaller independent countries of Europe have recently forsaken their time-honored policy of free importation of foodstuffs as a means of defending their economic position possibly from fear of future exigencies. Britain, for many years arguing the need for a two power standard for the navy on account of the dependence on distant sources of food supplies, may now be promoting domestic production partly

⁹ "The Encyclopaedia of Europe," *Europa* (London: Europa Publications Ltd., 1931), Vol. I, p. 103b.

¹⁰ Stephen Leacock, "Economic Analysis of Depression," *Papers and Proceedings of the Canadian Political Science Association*, Vol. V (1933), p. 23.

on account of more modest claims in policing the seas. It might be well for those who are interested in the safe conduct of their cargoes to recollect that even during the World War Australia was unable to take advantage of the shortage of food at one period on account of the dearth of shipping. Further, it has been pointed out that piracy is again appearing in some sections of the world due to relaxed efforts in policing the seas.¹¹

The World War was responsible for rapid expansion of production of food supplies essential for international trade in some sections of the world and the dislocation of it at the same time removed from this competition some countries constituting the leading sources of supply in some lines in pre-war days. This was true of Russia and to a certain degree of some other European countries of surplus production of food products, notably Rumania. Changes in land tenure and agrarian policy together with the demand for a higher standard of living than previously prevailed have combined to bring about a more nearly self-sufficing type of existence among many of the sections of eastern Europe where the great bulk of the population are still from necessity or choice occupied in digging a living from small parcels of soil without much equipment for the job.

The dislocation of the past decade and a half afforded the opportunity of a great impetus in world trade in farm products and also modified the direction of the traffic by altering greatly the sources of supply. Post-war social reconstruction proceeded apace on international credit. Restoration of the devastated areas, cessation of the free flow of credit and the new economic nationalism are closely related factors which have internationally restricted dependence more definitely to domestic production. The means of settling international commitments failed and the new economic nationalism developed from necessity when further financing of international trade on the deferred payment plan was impossible.

One reason why the new nationalism assumed the aspect of a limitation of imports of food products was on account

¹¹ The *Montreal Daily Star*, April 14, 1914, p. 25.

of the stores of these non-perishables which had accumulated by the end of the decade and the resulting decline in prices which left the industry of agriculture apparently throughout the whole world (and 70 per cent of the population of the world is still directly engaged in agriculture) in need of some form of relief.

Deferred payment as a basis for international exchange of goods proved temporary. Some more permanent basis for such trade is essential. A more permanent basis appears possible in the exchange of some goods and services for other goods and services—provided a satisfactory agreement over the terms of the exchange may be found. Perhaps the new economic nationalism may be a search for such a foundation.

Specialization has contributed much to society. It has made production increasingly simple and exchange increasingly necessary. The introduction of currency—a measuring stick of value not entirely free from manipulation—has made exchange increasingly difficult and complex. Nowhere is this more in evidence than in the trade between nations. For instance most records of international trade are in terms of value and the expansion or contraction is most generally indicated by reference to the increase or decrease in value. In this case as in many others money serves admirably to becloud the issue. Since money is not entirely free from manipulation the important point in regard to trade of any kind is not merely the value but rather the volume. This is particularly true of international trade. A few instances will suffice. How volume has been reduced since the recent growth of economic nationalism is indicated by the index number of physical volume of imports and exports of Canada since 1926, the base year.

TABLE I
PHYSICAL VOLUME OF TRADE*
(1926=100)

YEAR	IMPORTS	EXPORTS
1926.....	100.0	100.0
1927.....	118.7	97.6
1928.....	128.9	99.0
1929.....	151.3	117.7
1930.....	152.4	95.4
1931.....	126.1	83.5
1932.....	95.0	76.5

* *Canada Year Book, 1933* (Ottawa: King's Printer, 1934), pp. 595-6.

Such a reduction in the volume of exports from 117.7 in 1929 to 76.5 in 1932, the low point, is disastrous to a country so dependent on foreign markets—"the precarious pinnacle on which we perch."¹² Yet this apparently would scarcely warrant the contention that world trade is paralysed or strangled as exports were in volume in 1932, after this new nationalism had become fashionable, over three-quarters of that of 1926.

Perhaps more important from the point of view of world trade in farm products and particularly food supplies is the record of the consumption of foodstuffs in the leading—and at present almost the only prominent—importer of food products, that is Great Britain. Recent figures on the total and per capita consumption of food for 1932 as compared with the average of 1924 to 1927 are available. Per capita consumption figures are presented in Table II.

TABLE II
PER CAPITA FOOD CONSUMPTION IN GREAT BRITAIN*

COMMODITY	UNIT	1924-27	1932
Meats	lbs.	130	139
Poultry	"	3¾	5
Lard	"	8½	7½
Milk	gals.	16	18½
Butter	lbs.	15½	21¾
Margarine	"	12	9½
Cheese	"	9½	9¾
Eggs		113	150
Cream	pint	2⅓	¾
Condensed Milk ..	lbs.	8	9¾
Bread	"	148	148
Fish	"	40¾	44½
Sugar	"	84	92
Tea	"	9½	10
Coffee	"	¾	¾
Cocoa	"	2½	3¼
Flour	"	99	97
Fruit	"	98	106
Potatoes	"	187	200

* A. E. Feavearyear, "The National Expenditure 1932," *Economic Journal*, Vol. XLIV, No. 173 (March, 1934), p. 34.

The only articles of food revealing an appreciable decrease during the period was oleo which has been replaced

¹² O. D. Skelton, "Is Our Economic System Bankrupt?" *Papers and Proceedings of the Canadian Political Science Association*, Vol. III (1931), p. 86.

with butter during the period, and slight reductions in flour and lard. The volume of imports of bacon established a record in 1932 and the year ending in June, 1933, established a record for imports of butter by volume. The conclusions arrived at by the writer who supplies this information include:

"But the improvement in the average diet in the year of deepest depression as compared with the position seven years earlier is beyond doubt. The drawbacks of our dependence upon imported food are often pointed out; but in the past two years the much lower level of food prices compared with the prices of manufactured goods has been one of the principal reasons for the comparatively happy position of this country."¹³

This quotation indicates that the purveyor of foodstuffs for export may still retain his job by keeping his prices low enough to allow and promote a rise in the standard of living, a rise which apparently is possible generally throughout the world. The new nationalism evidently considers that there is a limit even to this policy and while admitting that the prices of farm products are too low even for the importing countries, definitely decides to overcome this difficulty by legislative action including tariffs, bonus of exports, licensing producers, and restricting imports by quota regulation.

The major reason apparent for such a policy would appear to be its absolute necessity. And it is necessary on account of the fact that governments in many countries have become involved gradually and perhaps reluctantly in the business of providing food. When any government takes over the supplying of the time utility by storing any product and also becomes unduly involved in the transportation of it and finally finds itself the only source of the financial backing for providing seed for it, then, is it surprising that it finds it necessary to have something to do with the selling of it?

What is the aim and object of this new economic nationalism developing in the important trading nations at the moment? It is a definite endeavor to bring the prices of raw products generally and farm products in particular into greater harmony with the prices of other goods. How is this

¹³ A. E. Feavearyear, "The National Expenditure 1932," *Economic Journal*, Vol. XLIV, No. 173 (March, 1934), p. 47.

to be brought about? By securing some measure of collective bargaining for agriculture. To make this possible one of the prerequisites recognized is control over quantities imported.

Collective bargaining has been secured for the disposal of certain goods and services by the assistance and acquiescence of economists generally. If this has been a benefit in regard to some other goods and services, why should the same privilege be denied the purveyors of farm products produced, as they commonly are, by small business units?

Minimum wage laws have never yet included workers in agriculture except in Great Britain. True, in Germany some effort has been made along this line but unemployment insurance there includes all but workers in agriculture. It is by no means a peculiar phenomenon to find theorists convinced of the necessity for minute regulation of many other industries advocating a policy of *laissez-faire* for farming. The British Marketing Act, which is the nearest approach to producing food on order yet provided, rests squarely on the foundation of a desire to secure for agriculture the shelter that is now provided the key industries and including agricultural labor—the major factor of production in farming—the remuneration of which has been regulated since 1917.

This definite objective has not been rushed into by governments generally. So long as farming was an industry carried on in small units, supplying largely its own capital and labor, no great concern was expressed for the welfare of the industry—except by the first group labelling themselves economists already referred to whose advice was not taken very seriously—but when farming becomes a commercial undertaking, farms mortgaged to wealthier people and taxes in arrears; then develops a definite attempt to improve conditions apparently more necessary than altruistic.

The new nationalism is by no means confined to restrictions of imports. It also provides against dumping and as such embodies a defence against unfair trade rather than an attack upon world trade in general. It has come about largely as an endeavor to equate more nearly world supplies with requirements. Under present conditions of production of farm products it is apparent that unrestricted trade in some products would require immediate adoption of a system

of world cartels which have been for some time common in industries other than agriculture.

It is unnecessary now to provide for such a contingency as what we are at least temporarily confronted with has been expressed by Sir Daniel Hall, who proclaims himself a dyed-in-the-wool free trader, yet who says: "I recognize that the world my Free Trade postulates has ceased to exist: there is no longer a free market for either materials, men or money."¹⁴

The great apostle of laissez-faire, the author of *The Wealth of Nations*, did not fail to qualify his conclusions in regard to this philosophy. He stated that it would not, surely, be worth while to examine at great length the errors of a system (the physiocratic) which never has and probably never will do any harm in any part of the world.¹⁵ Further, to expect, indeed, that the freedom of trade should ever be entirely restored in Britain is as absurd as to expect that an Oceana or Utopia should ever be established in it.¹⁶ In some parts of the world farm laborers were better rewarded than some other workers. They would probably be so everywhere if corporation laws and corporation spirit did not prevent it;¹⁷ for there are two classes of reasons why remuneration varies in different vocations, one inherent in occupations themselves—which all have paid some attention to—and the other class arising from public policy which few have struggled with and which influences the remuneration of different callings in three definite ways—first by restraining competition in some employments, second by increasing it in others, and finally by obstructing the circulation of capital and labour from employment to employment and from place to place.¹⁸

This policy was common a century and a half ago, has prevailed since that time in a greater or lesser degree, and is the case to-day. If such is the condition there is small hope

¹⁴ Sir Daniel Hall, "The Future of British Farming Under Modern Conditions—Freedom or Control," *Farmer's Club Journal* (London), December, 1933, pp. 91-108.

¹⁵ Adam Smith, *The Wealth of Nations* (Everyman's edition), Vol. II, Book IV, Chap. IX, p. 157.

¹⁶ *Ibid.*, Vol. I, Book IV, Chap. II, p. 414.

¹⁷ *Ibid.*, Vol. II, Book I, Chap. X, p. 115.

¹⁸ *Ibid.*, Vol. II, Book I, Chap. X, pp. 118-22.

for the automatic adjustments, so warmly urged by textbooks, to take place.

The incomplete or one-sided application of laissez-faire has not yielded the desired results. During the past four years this has been made perfectly clear. The vocations fronting world competition undefended by regulations evolved through decades tried to meet declining prices by increasing volume of production. Glutted markets precipitated still greater declines. Declines which brought a discrepancy in price which lessened trade and increased unemployment. Such a condition could have lasted for a few months without serious consequences. The third and fourth year of such discrepancy finds drastic search for a remedy. The industry of agriculture sometimes allowed to meet unmitigated competition from all corners of the earth and still comprising seventy per cent of the world's population, has become unable to absorb the goods produced by other classes. Unemployment in other industries developed and the most popular remedy has been to move capital and labor not to the prosperous industries but to agriculture. In point of time it has been only a comparatively short run from the *subsistence wage* to the *subsistence homestead*. The latter term is no more palatable than was the former.

The final result of expecting agriculture to absorb the unemployed from other industries and alone to enjoy the spur of world competition is apparently unsatisfactory. Different planning for agriculture from that followed in the past is indicated by the new nationalism. This new planning concedes the possibility of producing at least in some parts of the world a more abundant supply of foodstuffs than there appears any effective demand for. This accounts partly for the development of trade restrictions, import quotas and licensed producers.

Such a development does not interfere with the theory of international trade as amply illustrated by the *x* and *y* method. It does mean that the costs of transportation and exchanging—usually left out of consideration for the purpose of simplification—may become so important proportionally that the comparative advantage may be a minus quantity and a period of national self-sufficiency intervene. Such a period

we appear to be entering upon. How temporary or permanent it may be is another question.

How temporary or permanent the period of restricted trade may be will depend upon its cause or causes. To the extent that restricted trade is caused by discrepancy in prices increase may be expected as this divergence narrows. The record of the divergence of prices of Canadian farm products and retail prices and cost of services since 1929 may be examined at this point.

TABLE III
INDEX NUMBERS OF PRICES IN CANADA*
(1926=100)

YEAR	CANADIAN FARM PRODUCTS WHOLESALE	RETAIL PRICES AND COST OF SERVICES	DIFFERENCE
1929.....	100.8	99.9	+ 0.9
1930.....	82.3	99.2	—16.9
1931.....	56.3	89.6	—33.3
1932.....	48.4	81.2	—33.8
1933.....	51.0	78.0	—27.0
1934 (Feb.) ...	58.0	79.2	—21.2

*Agricultural Economics Branch of the Department of Agriculture, *Economic Annalist* (Ottawa: King's Printer), Vol. IV, No. 1 (March, 1934), p. 2.

How closely the divergence of these figures coincides with the decrease in trade and the decrease in employment is apparent to all and will be generally conceded. Should any doubt exist, however, the same source records the low year for the physical volume of business as 1932 when the index number was 78.7, while by February 1934 it has risen to 86.4.

The evidence indicates that the major reason of decline in trade is the difference in prices of goods and particularly the difference between farm prices and the prices of some other goods. That the difficulty is temporary and will be overcome by natural correctives is apparent from the fact that improvement is already apparent.

Realizing the tardiness of the natural correctives, the new economic nationalism, whatever else may be included, is endeavoring to make the industry of agriculture more prosperous. Methods followed in this aim vary with time and place and some of them may well be the subject of sincere

differences of opinion but that this aim is prominent in the development will be generally conceded.

Concession that the main difficulty is one of divergence of price is a concession that the difficulty is man-made and may therefore be overcome. This is certainly more encouraging than the recent fashion of blaming the difficulty solely on what may have happened on the other side of the world. If strangers have injured us in the way of trade it is a safe bet that they will do it again whenever opportunity offers. On the other hand the only errors susceptible of our correction are our own.

It is somewhat common to blame the dislocation of the World War for recent difficulties. But after that dislocation Canada is granted a two hundred million bushel export quota of wheat whereas for the five pre-war years exports did not reach half that quantity. Again it is common to blame the war for the generous load of debt undertaken. Canada had made quite a few future commitments even in pre-war days as has been pointed out.¹⁹ Experience should stress the need in the future of borrowing—if any borrowing is contemplated—from those countries willing to receive payment in goods or services for the goods or services borrowed. Further, it may be wise to invest in the future—if any foreign investment is contemplated—in countries where markets may be opened up. In this way a more permanent basis of trade internationally may be established.

There is yet one form of trade which is comparatively unhampered. All countries encourage tourists. Travel by those who promise to return to their own land is not seriously interfered with. This is one of the invisible exports which recently has enabled international trade to be maintained fairly well in spite of handicaps.²⁰ And international trade has been maintained fairly well considering. It has stood up well in food products. Some argue that raw materials and luxuries are the classes of trade which will be

¹⁹ Jacob Viner, *Canada's Balance of International Indebtedness 1900-1913* (Boston: Harvard University Press, 1924).

²⁰ G. B. Roorback, "The Effect of the Tariff on the Import Trade," *Annals of the American Academy of Political and Social Science*, Vol. 141 (January, 1929), pp. 25-27.

most important in the near future.²¹ If such be the case Canada should have a large share in this development as export surpluses of the mine, the forest and the farm consist chiefly of those commodities essential in international trade.

Agriculture in Canada is peculiarly dependent on world trade. Nowhere else in the world are three-quarters of a million farms scattered over such a wide area of varying conditions with but one similarity, the length of the growing season, which outside of the area beyond the Rocky Mountains is not long. Hence Canada imports food products of types not adaptable to local conditions. Natural resources of soil and climate limit to a certain degree comparative opportunities and develop specialization. Limitations of domestic consumption stress the importance of world trade. Remoteness from markets, whether domestic or foreign, dictates the organization of the business developing. It is from necessity that the same number of farm workers approximately crop some sixty million acres in Canada that in England and Wales crop about twenty-five. It is possible that the three-quarter million farms of Canada cropping annually sixty million acres may continue successfully to compete with the over five million farms of Germany who cropped in 1931 some sixty-three million acres. Such comparisons support the hope that decreases in world trade may be only temporary.

In the meantime some modification in the direction of production may be dictated by the new nationalism. There is no law to compel purchase of what people do not want. The alternative sometimes presents itself of giving them what they do want. This modification is already being followed to some degree to advantage. If this promotes the putting of the domestic house in order it may have its good points. Many of the trade restrictions now employed may be expected to be temporary as the advantages of free trade are fundamentally the same as the advantages of trade in general.²²

²¹ Owen D. Young, "The Future of International Trade," *Queen's Quarterly*, Vol. XLI, No. 1 (Spring, 1934), p. 26.

²² "Canadian Trade Policy in a World of Economic Nationalism," *ibid.*, p. 94.

When countries succeed in putting their affairs in order nationally, international trade may expand on the basis of a generally higher standard of living which may be a more permanent basis than the deferred payment basis referred to. It is in anticipation of this that shipbuilding is being resumed although present capacity is seventy-five per cent greater than pre-war figures.²³

If the new economic nationalism, so generally deplored, serves to emphasize that the really important problem is the relative prices or rewards for certain services within a certain section rather than the comparative advantages between different sections it may do a vast amount of good. By stressing the *comparative* as contrasted to the *absolute* advantages in different lines of effort, some benefit may be derived without any undue violence being done to the orthodox theory of international trade.

²³ E. W. Beatty, "President's address," given at the annual meeting of the shareholders of the Canadian Pacific Railway and reported in the *Gazette* (Montreal) May 3, 1934, p. 6.

TRADE AND TARIFFS IN THE BRITISH NORTH AMERICAN PROVINCES BEFORE CONFEDERATION

J. C. HEMMEON

For those of my readers who are not familiar with the Canadian political and economic situation at and shortly before the federation of the British North American provinces in 1867, a few preliminary words of explanation seem desirable. Previous to 1841 these provinces consisted of British Columbia, Upper Canada, Lower Canada, New Brunswick, Prince Edward Island, Nova Scotia, and Newfoundland. Each of these provinces was quite independent, one of the other, though of course they were all subject to the sovereign power of Great Britain through governors sent out from that country and through the Secretary of State for the Colonies. In Upper Canada the population was predominantly English speaking, while in Lower Canada the majority was of French descent with French as the mother tongue. Much discontent had arisen in these two provinces, partly the result of ill feeling and jealousy over fiscal and other problems, partly the result of the lack of responsible government and the arbitrary actions of the British governors and the British Colonial Office. In 1841 the two provinces were united to form the Province of Canada, and in 1867 a larger federal union was accomplished. This union, which was called the Dominion of Canada, included the Province of Canada, which was redivided for local purposes into Ontario and Quebec, and, in addition, the maritime Provinces of New Brunswick and Nova Scotia were cajoled or forced into the federation, to be followed a little later by Prince Edward Island and British Columbia. Still later the North West Territories were acquired. Newfoundland refused to join the federation and still prefers to remain outside the family circle; while British Columbia was so far away and so inaccessible until the Canadian Pacific Railway was completed that I have not included her in this brief study.

It is perhaps unnecessary to offer any apology for a study of trade and tariffs as they existed in what are now the

maritime provinces of Canada before their union with the dominant partners, Ontario and Quebec, in 1867. Certainly no apology is necessary to the student of economic history, but, in this particular case, such a study may be of help to those who are not economic historians but are concerned with certain problems which confront Canadians to-day. There are many maritime province people who are of the opinion that the political and economic union has accomplished little, since 1867, that has been useful to them, and much that has been disastrous. They say that the protective "National Policy," adopted in 1879, and since then made more highly protective, has compelled them to buy in a limited and expensive market while it has not made available a compensating market where they may sell their own products. By way of further explanation they say that their own goods are not needed to any extent in Quebec, Ontario, and the western provinces, while the goods that they need have to be purchased in those provinces at prices much higher than those which prevail in the competitive markets of the world.

There is little doubt that their statements are to a certain extent true, but their case would be much stronger if it were possible to show the exact amount of the trade between the maritime provinces and the rest of Canada. This cannot be done because the necessary statistics are not available. I am quite aware that some statistical work has been done, but the conclusions reached are necessarily based on stray facts and guesses. Some light can, I think, be thrown on this problem by facts and figures at our disposal while the provinces of the Dominion were politically independent and while, at the same time, they benefited from a small measure of reciprocal free trade in raw materials. With the exception of this limited amount of free trade the provinces of what is now the Dominion of Canada treated each other before 1867 as independent nations now do. For example, Nova Scotia imposed duties on goods imported from the Province of Canada as she imposed duties on goods produced in the United States. This makes it possible for us to state definitely the exact nature and extent of the trade before 1867 between any and all of the provinces which then existed and which now form part of the Dominion of Canada. I am fully aware

that with increased population, better transportation facilities, and the abolition of tariff barriers, trade between the provinces has increased greatly, but I am also of the opinion that, from a study of the period when the provinces treated each other no better than they did the rest of the world, it is possible to arrive at certain general conclusions concerning natural trade channels which will help us in determining, to some extent, the justice of the claim that the maritime provinces were forced into an unholy and unprofitable alliance with the rest of Canada and, more particularly, with the so-called central provinces of Ontario and Quebec.

There is no doubt that before 1867 and until that date there were considerable differences in the duties imposed by the provinces on imported commodities, but it is very difficult to say what these differences amounted to. The old Province of Canada had adopted the practice of imposing *ad valorem* duties as a substitute for specific duties, while the other provinces were still in the habit of using specific duties to a considerable extent. This makes comparison between the tariffs of the various provinces difficult, particularly since prices at that time are often impossible to determine. There is no doubt that the tariff rates of the Province of Canada were higher than those of the maritime provinces, though the difference has been exaggerated; it is to be explained largely by the fact that the Province of Canada had undertaken a very ambitious policy of canal and railway construction, though at the same time there is no doubt that the desire to afford protection to home industries was a factor of some importance. On the other hand the maritime provinces were less advanced industrially, their expenditures were comparatively not so great, and they depended primarily on trade and shipping to support their inhabitants.

Under the tariff act of the Province of Canada goods were listed in nine schedules. In three of these specific duties predominate, though not to the exclusion of *ad valorem* duties. Some of these duties, especially those on luxuries and on commodities not produced in the province, were very high. The prevailing rate of duty on most manufactured goods and on goods not otherwise specified was 15 per cent, a very moderate rate in comparison with that which prevails in the

tariffs of to-day. Foods were generally subject to rather high specific duties but wheat was duty free. In Nova Scotia most of the duties were specific and rather high on luxuries but not so high as in the Province of Canada. The not-otherwise-specified rate was 10 per cent, and there was little or no incidental protection afforded by these duties. In New Brunswick the duties were a little higher than in Nova Scotia, the not-otherwise-specified rate—which was the rate that was collected on most manufactured commodities—being $12\frac{1}{2}$ per cent. The fact that the rates in New Brunswick were rather higher than in Nova Scotia is to be attributed to a more extensive railroad program and to financial deficits. Rates in Prince Edward Island and Newfoundland were much the same as in Nova Scotia. It is not my desire to burden my readers with details, and, for that reason, I have considered it better not to quote specific rates but rather to attempt a general and comparative impression. In order to make this impression rather more detailed and concrete, I have appended some figures which show, in a general way, the rates of duty that prevailed in the different provinces in 1861.

TABLE I
TARIFF RATES IN THE CANADIAN PROVINCES, 1861

	Canada	Nova Scotia	New Brunswick	Prince Edward Island	Newfoundl'd
Proportion of duties collected to value of all imports	per cent 11	per cent $7\frac{3}{4}$	per cent $9\frac{1}{2}$	per cent $8\frac{1}{2}$	per cent $7\frac{1}{2}$
Proportion of duties collected to value of dutiable imports	19	$11\frac{3}{8}$	$13\frac{3}{4}$	$10\frac{3}{4}$	$12\frac{1}{2}$

Provision was also made by the different provinces for the admission free of duty of many primary products originating in these provinces. The products so named were much the same as those listed under the Elgin Reciprocity Treaty, which was in operation from 1854 to 1866. It is important that this fact be noted, because the existence of what were practically similar relations between the different British provinces and between those provinces and the United States makes it much easier to arrive at conclusions that are positive, since the facts upon which these conclusions are

based need not be qualified on account of the existence of varying and different causal factors.

Mr. James Stuart, who had been solicitor-general of Lower Canada (Quebec), wrote:

There is absolutely no intercourse whatever between the Canadas and New Brunswick. An immense wilderness separates the inhabited parts of both and they have no interchangeable commodities admitting of any trade between them by sea. Nova Scotia is remote and is only accessible from the Canadas by land through New Brunswick and keeps up a small trade with Lower Canada by the Gulf of St. Lawrence in productions of the West Indies. Between Lower Canada and Prince Edward Island there is hardly any communication whatever.

This statement of Mr. Stuart's may be accepted as largely true, in so far as it points out that there was little or no trade between Canada and the maritime provinces because there were few "interchangeable commodities." Their separation by "an immense wilderness" was not nearly so important a cause, for the water route—open for the larger part of the year—was cheap and easily navigable; the people of the maritime provinces were (and still are) bold navigators attached to the sea, and were at that time in possession of a large mercantile marine which was widely scattered over the seven seas. Had opportunity for trade with Canada offered, had there, in other words, existed any amount of "interchangeable commodities," they would have been among the first to avail themselves of such an opportunity. Not long after Stuart made his pronouncement, the provinces of Canada and Nova Scotia offered a substantial subsidy to a steamship line to run between Halifax and the city of Quebec. One steamer, the *Royal William*, was in operation for two seasons and was then withdrawn as a result of lack of business.

The larger part of the trade of the Province of Canada was with Great Britain and the United States. It was almost equally divided between these two countries, but in 1867, and for some time before and after that date, imports to Canada from Great Britain exceeded imports from the United States, while precisely the opposite was true of Canadian exports, a state of affairs which has been reversed within recent years. Trade with the other British provinces was almost negligible. Such trade as existed was carried on by the St. Lawrence

River, though a little went through Portland by water and rail.

The imports and exports of the Province of Canada for the fiscal year ending June 30, 1867, are shown in the following Table II.

TABLE II
External Trade of the Province of Canada for the fiscal year ending
June 30, 1867

	Imports	Exports
Great Britain	\$34,260,509	\$14,962,504
Maritime Provinces	1,108,373	3,549,197
United States	20,272,907	25,583,800
France	1,711,151	266,987

Nova Scotia is credited with more than half of the Canadian imports from the maritime provinces, but much of these consisted of sugar and molasses carried from the West Indies in Nova Scotian vessels. The most important imports of products originating in Nova Scotia consisted of fish, fish oil, and coal. Newfoundland was responsible for about one-quarter of the maritime province export trade to the Province of Canada—principally fish and fish oil. New Brunswick and Prince Edward Island sent fish in small quantities. It will be noticed that, although the trade between the Province of Canada and the maritime provinces was comparatively small, the value of Canadian exports to these provinces was much greater than the value of Canadian imports from them. This is a characteristic which undoubtedly exists at the present time, although since the trade is now domestic, it is impossible to say how the old ratio has changed or whether it has changed at all. If a guess is allowable, it is probably the case that the maritime provinces import a much larger proportion from the old Province of Canada than they export to it, this being a result of the much higher protective tariff that now prevails; whereas the maritime provinces have very few products that are needed in the rest of Canada, nor are these products protected by duties that are adequate to secure them a market in the central portions of the Dominion. In 1866 the principal Canadian exports to the maritime provinces consisted of flour, other agricultural products, such as butter and lard, and a small quantity of manufactured goods.

Most of the trade—both export and import—of the maritime provinces was with Great Britain and the United States. The export trade to Great Britain consisted largely of raw materials, of which lumber, ships, and a few agricultural products were the most important, while the return trade was largely in manufactured goods including cutlery, woollens, and certain luxuries. The export trade to the United States was also composed largely of raw products such as coal, fish, gypsum, and lumber, while the import trade was much more varied. Nova Scotia imported flour, corn and oatmeal, pork, hams, and tobacco, all of which paid no duty under the Reciprocity Treaty. Dutiable imports consisted of hardware, iron, cutlery, cotton, and leather goods. Free goods imported by New Brunswick from the United States consisted of flour, salted foods, oatmeal, and corn and rye flour; while the dutiable commodities were drygoods, tea, spirits, wines, ales, hardware, tobacco, leather, and molasses. Prince Edward Island imported from the United States flour, which was free, as well as hardware, cutlery, leather, tea, and molasses, all of which were dutiable. In the case of each of these three provinces the value of the flour imported was greater than the value of all other imports.

The trade of the maritime provinces with each other, although not nearly so important as that with Great Britain and the United States, was much greater than that with Canada. For the most part they exchanged with each other such natural products as each province produced most cheaply. Nova Scotia exported coal, gypsum, fish, and some forest products, receiving in exchange agricultural commodities, horses and cattle from Prince Edward Island and New Brunswick. Trade with Newfoundland was not important. Such trade as existed consisted largely of fish and fish oil exported from Newfoundland, while the principal imports to the island were food products. Trade between the maritime provinces and the West Indies ranked next in value after trade with Great Britain and the United States, and was much more important than trade with the Province of Canada. The maritime provinces imported from the West Indies large quantities of sugar, molasses, and rum, for which they exchanged fish, fish oil, and some agricultural products.

A comparison of exports and imports of the three Maritime Provinces of Nova Scotia, New Brunswick, and Prince Edward Island shows the extent to which the value of commodities imported exceeded the value of commodities exported. This is particularly marked in the case of Nova Scotia. For the year ending September 30, 1866, the value of commodities imported into that province was \$14,381,008, while the value of commodities exported was only \$8,043,095. This so-called unfavorable balance of trade is to be explained by the fact that Nova Scotia as well as the other maritime provinces had a large fleet of sailing vessels busily engaged in transporting commodities between foreign countries. The tonnage owned and registered in the several provinces in 1866 was as follows: Nova Scotia, 400,895; New Brunswick, 233,945; Quebec (sea-going craft), 144,989; and Ontario and Quebec (lake and river vessels), 80,000. I am quite aware that these figures are not accurate nor in many cases commensurable, owing to the fact that no great care was exercised to strike from the list those vessels that were lost or sold, and also as a result of varying and careless methods in measuring tonnage. Moreover, all of the provinces did a considerable export business in vessels which ordinarily found a ready market abroad, principally in Great Britain, and these vessels are not listed among commodities exported. This is but natural, since vessels sold abroad were not in many cases exported specifically for that purpose, nor, as I have noted above, was the sale abroad likely to be recorded.

I am inclined to think that this study of trade relations between the maritime provinces, the Provinces of Canada, and other countries, at the latest date when it is possible to present figures, is of some help in establishing the claim that the union of 1867 has been harmful to the maritime provinces to the extent that it has deflected their natural trade into other and less desirable channels. It has in addition compelled them to buy in a highly protected and costly market, while it has not afforded a similar market where they may sell their products. Of course this is not the whole story. The change from wooden vessels to iron and later to steel steamers was a terrible blow to the principal industry of the maritime provinces, and particularly to Nova Scotia. The

people of these provinces have been charged with a lack of vision in that they failed to foresee the change that was coming, and a lack of initiative in failing to take advantage of this change when it was finally brought home to them; but that is another and an equally sad story for the provinces by the sea.

ROUND TABLE CONFERENCES

THE STATUS OF ALIENS IN CANADA

H. F. ANGUS, *Chairman*

N. A. M. MACKENZIE.—This subject divides itself rather conveniently into three or four general heads:

1. Immigration; or how the alien gets into Canada;
2. His legal status (rights and disabilities) while an alien;
3. Naturalization; or how he becomes a British subject and a Canadian citizen;
4. Deportation and loss of citizenship.

As Professor Angus of the University of British Columbia had already written papers which had been published in the *Canadian Bar Review*¹ and the *American Journal of International Law*,² covering certain aspects of this subject, it was thought advisable to procure offprints of these papers and have them despatched to individuals and organizations, who were likely to be interested in the subject, for their information and criticism. Responsibility for the rest of the work was assigned to Professor J. Finkelman and myself, of the University of Toronto, and typewritten copies of the papers prepared under our supervision, under the titles of "The Administrative Control of Canadian Immigration" including Deportation, and "Naturalization," were sent out in advance of the round table to the individuals and organizations indicated above for their information and criticism. None of these papers are to be read here, as many of the members of the round table have already received copies of them, but general summaries of them and of the problems with which they deal will be given by Professor Angus, Professor Finkelman and the Chairman. These summaries include any changes that have been made in the original drafts because of comments that have been sent in by the persons and organizations to whom the original papers were sent. In the light of the coming discussion which is to take place in these summaries, it is certain other changes will be made in the papers and will be embodied in the final draft.

The persons and organizations to whom copies of the papers were sent included:

The Secretary of State;
The Secretary of State for External Affairs;

¹ "The Legal Status in British Columbia of Residents of Oriental Race and their Descendants," Vol. ix, No. 1 (January, 1931), p. 1.

² "Canadian Immigration: the Law and its Administration," Vol. 28, No. 1 (January, 1934), p. 74,

The Minister of Justice;
The Minister of Immigration;
The Minister of Labour;
The Commissioner of the Royal Canadian Mounted Police;
The Canadian Pacific Railway, Colonization Department;
The Canadian National Railway, Colonization Department;
The Jewish Immigrant Aid Society, Montreal;
Thomas Mulvey, Esq., K.C., C.M.G., Ottawa;
Major G. L. P. Grant-Suttie, Toronto.

J. FINKLEMAN AND N. A. M. MACKENZIE.—An analysis of the Canadian laws regulating immigration may be divided into three parts, the first dealing with the process by which immigrants are brought or come to Canada, up to the point where they are permitted to land in the Dominion, the second dealing with the process of expulsion or deportation of persons who have landed in Canada but are subsequently found to be undesirables, the third dealing with the jurisdiction of the courts to review the findings and decisions of immigration officers.

I

1. Machinery to attract immigrants to Canada

The machinery of the government of Canada for the stimulation of interest in this country and the attraction of immigrants from abroad centres largely in Great Britain and the United States, but it covers also all civilized western countries from which desirable classes of immigrants may be drawn. The strength of the establishment varies proportionately with changes in the economic life of the Dominion. Consequently the establishment is so much reduced and its activities so curtailed by reason of present adverse economic conditions that in order to give a fair estimate of its normal extent and functions we must go back to the year 1928 or 1929. The outline which follows is therefore to be considered as describing the organization in normal times. In the last few years the machinery of the Immigration Department on the continent as well as in the United Kingdom has not been employed for the purpose of stimulating immigration to Canada but rather to regulate the flow and to ensure that a suitable type of immigrant is permitted to leave the country of origin.

The machinery for attracting immigrants falls into two major divisions:

(1) The European organization; further subdivided into (a) the British organization, and (b) the continental organization; (2) The United States organization.

The European organization consists of a Director of European Immigration, an Assistant Director, Chief Medical Officer, and headquarters' staff, all of whom are located in Canada House, London, and agents with the requisite staff located at strategic points throughout the United Kingdom and the continent of Europe. At one time a Superin-

tendent of Immigration for Continental Europe was stationed at Antwerp with full authority over the activities of the Department on the continent. This official reported direct to Ottawa. However, in 1924, the office was abolished and control of the continental organization passed to the Director in London.

The Director is appointed by and is responsible to the Minister of Immigration.¹ In practice, however, he corresponds with and reports to the Deputy Minister and, in conformity with a recent arrangement which centralizes all Canadian departments in London under the High Commissioner, the Director co-operates with the High Commissioner. The Assistant Director carries out the routine duties of the organization and guides the activities of the Department's representatives both in Great Britain and on the continent. Until quite recently agencies were maintained in Great Britain at the following points: London, Liverpool, York, Bristol, Southampton, Bangor, Birmingham, Glasgow, Inverness, Aberdeen, Belfast.

On the continent offices were located at Paris, Antwerp, Bremen, and Rotterdam and most emigrants from the continent pass through one or other of these offices. An exception must be made, however, in the case of emigrants from the Scandinavian countries who comprise a preferred class in that their home conditions most closely approximate those found in Canada and who are permitted to present themselves for examination at the port of entry.

The officers and the agents who serve under them must possess Canadian citizenship and, while some of them are Canadian by birth, the majority were born in Britain, having acquired Canadian domicile. They are selected by competitive examinations under the rules of the Civil Service Commission of Canada and must display evidence of special aptitude and qualification for the work, and a knowledge of the conditions of the country in which they are located.

Women officers are attached to the organization for the purpose of examining single women desirous of proceeding to Canada or wives with families seeking to join their husbands who have preceded them to the Dominion. These officers are appointed in the same manner as above, and require qualifications similar to those of the agents. It should be noted at this point that the office of agent has at times been filled by a woman.

The duties of the agents are as follows: To distribute accurate information about Canada, to draw attention to the possibilities for endeavor in various fields, particularly agriculture and the development of natural resources, to gauge the requirements of the Canadian labor market and advise as to the capacity for absorption of immigrants in any given field.

¹ The Immigration Act, *Revised Statutes of Canada*, 1927, Chap. 93, Sec. 5.

In the course of his duties, the agent affords interviews, replies to enquiries by correspondence, gives lectures in appropriate centres, maintains exhibits at agricultural fairs, distributes literature, and conducts travelling exhibitions and advertising campaigns in the newspapers designed to arouse interest in Canada. Much active and moral support is offered by local bodies in Great Britain.

In addition to the government organization there are also various voluntary organizations and societies engaged in stimulating immigration to Canada. We shall mention only a few of these organizations, namely, the Salvation Army, various religious organizations and social welfare societies, such as Y. M. C. A., Y. W. C. A., the Society for the Overseas Settlement of British Women, the Catholic Women's League and societies for the promotion of child and adolescent immigration. The greatest influence is probably exercised by the railway and steamship companies who maintain elaborate organizations of their own, composed of local agents who are controlled both by the officials of the steamship company which they serve, and by the Board of Trade under the British Merchant Shipping Act. It would only be fair to say that, since the establishment of some measure of control over immigration, notably with the introduction of the Passenger Acts of the last century, these agents have become responsible members of the local community and their reputation and business success depend upon their ability to send to Canada immigrants who succeed in adapting themselves to the requirements of the country. These agents with the colonization departments of the railways and the representatives of the steamship companies form an important recruiting force for immigration. Certain of the provinces also maintain immigration agencies.

A word should be said at this point about the attitude with which the various recruiting organizations approach their tasks. The government immigration agent is looking primarily for citizenship, for people who possess the qualities which will enable them to succeed under new conditions. The railways seek agricultural families who will cultivate the large areas of fertile lands adjoining the railways and thus create freight and passenger traffic to increase their revenues. Steamship company representatives are apt to be influenced by traffic considerations, but are guided largely by the colonization departments of the railways. The object of these bodies is distinctly utilitarian. They seek people who will become useful citizens. On the other hand the religious and welfare organizations are animated by a desire to elevate the moral standards of the persons with whom they deal and to alleviate conditions at home by immigration, that is to say, the primary considerations in their view are spiritual values. This distinction is frequently overlooked but it produces marked differences in the type of applicant presented.

Let us now take a hypothetical case and discover the manner in which the agency makes contact with the various classes of persons

disposed to emigrate to Canada. Let us suppose that the colonization agent of one of the bodies which we have described delivers a lecture in some rural town. John Brown, an agricultural laborer, thirty-two years of age, with a wife also familiar with farm life, and two children, is attracted by the prospect of emigrating to Canada. After the lecture he remains with a number of other enquirers. Their names and addresses are taken and the agent calls at their homes. Here, in the course of an hour's conversation, he is able to gauge the stability of the man and his family and to advise them. Should they decide to go to Canada they fill out a form which constitutes a convenient record of their circumstances. This form is usually supported by confidential references as to character and ability, and together with the verification of references and the report of the agent, it is submitted to the government immigration agent who arranges for a further interview. The agent may recommend the application (subject to the report of the medical officer) or he may reject it. In case of rejection an appeal lies to the European Director in London who may refer the matter to Ottawa for final decision, usually with respect to the settlement arrangements. Female domestic servants and other women are usually interviewed by a woman officer. If the application of the prospective immigrant is approved the applicant must submit to a medical examination.

2. Medical Examination.

In Great Britain this examination is conducted under the authority of the Department of Health Act.² The establishment consists of a Chief Medical Officer with headquarters at Canada House, London, and medical officers attached to the principal port offices of immigration agents. Examinations are conducted by local doctors whose names are carried on a roster of the Imperial authorities for various purposes and who have therefore come to be known as "roster doctors." In spite of these arrangements about 80 per cent of the medical examinations are carried out by Canadian doctors at the ports.

At the time of the interview the government agent, as a common practice, leaves with the applicant identity cards to which the applicant is required to affix a passport photograph and to present the card to the medical officers at the examination. If the officer approves the application he endorses the card and returns it to the applicant; otherwise, he withholds it and forwards it to the immigration agent. In addition, the doctor also forwards to the immigration agent, a certificate of examination. The procedure outlined is not the invariable practice; British subjects proceeding to Canada who possess ample means to ensure their entry may approach the medical officer of their own accord. An appeal lies from the decision of the "roster doctor" to the medical officer at the port and from the latter to the Chief Medical Officer in London. However, it is to be borne in mind that the opinion

² *Revised Statutes of Canada, 1927, Chap. 90, Sec. 4 (c).*

rendered by any of the aforementioned officers is merely advisory and may be rejected by the immigration officer at the port of entry into Canada. In 1928 the Canadian government sought to establish Canadian medical officers throughout the agencies and to make examinations in Britain final. The venture proved costly, inconvenient and unpopular with immigrants and was abandoned for the previous system.

On the continent the prospective immigrant first secures from his own government a passport which is granted in most continental centres on evidence of good conduct and morality. As a matter of procedure steamship companies advise a preliminary medical examination, particularly in the case of immigrants coming from areas where diseases like trachoma are prevalent. The immigrant then proceeds to an embarkation port where a Canadian immigration agent is stationed. There he must undergo a full medical and civil examination and obtain the agent's visa.

The prospective immigrant now secures his reservation. If passage assistance is to be granted the reports and recommendations of the examining officers are remitted to headquarters with a request for the issue of a transportation warrant. The immigrant is now ready to sail for Canada. However, it must be remembered that the approval of the applicant and the medical examinations do not entitle a person to enter Canada. They are merely evidence in his favor to be presented to the authorities at the port of landing.

Ordinarily, recruiting officers are maintained in the United States, but immigrants originating in that country are not subjected to any preliminary examination either civil or medical. They are permitted to present themselves to the immigration officer at the port of entry on the boundary, who, after the usual examinations, may allow them to "land," if they satisfy the requirements.

3. Landing of Passengers.

The necessary particulars concerning the immigrant are entered on the ship's manifest and on arrival at the Canadian port this document together with a bill of health certified by the medical officer of the vessel is delivered to the immigration officer in charge.³ The manifest must contain the names of all passengers and stowaways on board the vessel at the time of her departure from the port whence she last cleared for Canada, and it must declare whether any of the persons are insane, idiotic, epileptic, dumb, blind or infirm or suffering from any physical defect which may be cause for rejection, and whether they are accompanied by any relative able to support them. The surgeon of the vessel is also required to certify as to the mental and physical condition of the passengers. In case there is no surgeon sailing with the vessel

³ *Ibid.*, Chap. 93, Secs. 26 and 50.

verification of the manifests is made by a competent surgeon before a British consular officer. Penalties are imposed on the master of the vessel if he should allow passengers or stowaways to go ashore without the permission of the immigration officer. On the delivery of the aforementioned documents the immigration officer in charge grants written permission to the master of the vessel to allow the passengers to leave the vessel. Each immigrant is then subjected to a final civil and medical examination.

The officer in charge and a medical examiner examine each immigrant and if they are satisfied that he has complied with all the requirements he is permitted to land. Section 2 (1) of the Immigration Act defines "land," "landed" or "landing" as meaning the lawful admission of an immigrant into Canada by an immigration officer. This section is of importance because no person can acquire a right to stay in Canada unless he has been lawfully landed within the meaning of this section.⁴

Where any doubt arises as to the admissibility of an immigrant the case is referred to a Board of Inquiry. Boards of Inquiry are appointed under section 13 of the Immigration Act. The Boards consist of three members who are nominated at a port of entry by the Minister; section 22 provides that where there is no Board of Inquiry at a port of entry the officer in charge is to perform the duties of a Board of Inquiry, possessing similar powers and jurisdiction. The Board appoints its own chairman and also a secretary who is required to keep a summary record of the proceedings, evidence and testimony taken. Hearings before a Board are heard *in camera* in the presence of the immigrant, who has the right to be represented by counsel whenever any evidence or testimony touching the case is received by the Board.⁵ It would appear that the evidence referred to in this section is the oral evidence taken at the hearing, as other evidence may have been presented in the form of letters or otherwise before the prospective immigrant presents himself for examination.⁶ The Board may proceed and base its decision upon any evidence which it considers credible or trustworthy, and the taking of evidence upon oath is in the discretion of the Board. The common law rules of evidence are not binding upon it. The burden of proof is upon the person who claims the right to enter the country.

Although the procedure and decision seem to lie entirely within the discretion of the Board, the courts have intimated that the principles of

⁴ Compare *Re Margaret Murphy*, (1910) 15 British Columbia Reports 401, where the court held that the appellant had acquired domicile even though she had not been lawfully landed within the meaning of the section as it then stood. The Act was subsequently amended.

⁵ Section 15.

⁶ *Re Low Hong Hing*, (1926) 3 Dominion Law Reports 692.

"natural justice"⁷ must be observed. They have not defined what is meant by this term in the cases under the Immigration Act which have come before them, but, presumably, the term has the same application in this connection as in any other instance where action is taken by administrative bodies. These principles include an adequate opportunity of rebutting evidence which is presented against the immigrant, freedom from bias on the part of the officers before whom the case is heard and so on.⁸

If the prospective immigrant is rejected because of the report of the examining medical officer that he is afflicted with any loathsome disease, or with a disease which may become dangerous to the public health, or that he is an idiot, imbecile, feeble minded person, epileptic or insane, such report is final and not subject to appeal. In all other cases there is an appeal from the Board of Inquiry to the Minister. It is submitted that the Minister in this case is *persona designata* and he cannot delegate his duties to the Deputy Minister or any other officer. Authority for this proposition is to be found in *Langlais v. Srb*.⁹ Although that case dealt with the deportation of an alien, the principle is the same. The decision of the Minister is declared by the Act to be final and the appellant is to be deported forthwith. Section 23 of the Act says that "no Court, and no judge . . . shall have jurisdiction to review, quash, reverse, restrain or otherwise interfere with any proceeding, decision or order of the Minister or of any Board of Inquiry, or officer in charge, had, made or given under the authority of and in accordance with the provisions of this Act . . . upon any grounds whatsoever unless such person is a Canadian citizen or has Canadian domicile." However, as we shall point out later, the interpretation placed by the courts on this section has limited its scope, if not nullified it entirely. At this stage we shall only point out that on a number of occasions the courts have granted writs of *habeas corpus* to immigrants whom they held to have been improperly excluded.¹⁰

Upon what grounds may an applicant for admission to this country be rejected? Section 3 sets out the following classes referred to as prohibited classes:

(a) Idiots, imbeciles, feeble-minded persons, epileptics, insane persons, and persons who have been insane at any time previously;

(b) Persons afflicted with tuberculosis in any form or with any loathsome disease, or with a disease which is contagious or infectious,

⁷ *In re Munshi Singh*, (1914) 6 Western Weekly Reporter 1347.

⁸ *Re Low Hong Hing*, (1926) 3 D.L.R. 692.

⁹ 52 Que. K.B. 252.

¹⁰ *Re Walsh*, (1913) 13 D.L.R. 288; *Re Gardner*, (1913) 12 D.L.R. 610; *Re Thirty-Nine Hindus*, (1913) 15 D.L.R. 189; *Re Barnstead*, (1920) 55 D.L.R. 287.

or which may become dangerous to the public health, whether such persons intend to settle in Canada or only to pass through Canada in transit to some other country: Provided that if such disease is one which is curable within a reasonably short time, such persons may, subject to the regulations in that behalf, if any, be permitted to remain on board ship if hospital facilities do not exist on shore, or to leave ship for medical treatment;

(c) Immigrants who are dumb, blind, or otherwise physically defective, unless in the opinion of a Board of Inquiry or officer acting as such they have sufficient money, or have such profession, occupation, trade, employment or other legitimate mode of earning a living that they are not liable to become a public charge, or unless they belong to a family accompanying them or already in Canada and which gives security satisfactory to the Minister against such immigrants becoming a public charge;

(d) Persons who have been convicted of, or admit having committed, any crime involving moral turpitude;

(e) Prostitutes and women and girls coming to Canada for any immoral purpose and pimps or persons living on the avails of prostitution;

(f) Persons who procure or attempt to bring into Canada prostitutes or women or girls for the purpose of prostitution or other immoral purpose;

(g) Professional beggars or vagrants;

(h) Immigrants to whom money has been given or loaned by any charitable organization for the purpose of enabling them to qualify for landing in Canada under this Act, or whose passage to Canada has been paid wholly or in part by any charitable organization, or out of public moneys, unless it is shown that the authority in writing of the Deputy Minister, or in case of persons coming from Europe, the authority in writing of the assistant Superintendent of Immigration for Canada, in London, has been obtained for the landing in Canada of such persons, and that such authority has been acted upon within a period of sixty days thereafter;

(j) Persons who in the opinion of the Board of Inquiry or the officer in charge at any port of entry are likely to become a public charge;

(k) Persons of constitutional psychopathic inferiority;

(l) Persons with chronic alcoholism;

(m) Persons not included within any of the foregoing prohibited classes, who upon examination by a medical officer are certified as being mentally or physically defective to such a degree as to affect their ability to earn a living;

(n) Persons who believe in or advocate the overthrow by force or violence of the Government of Canada or of constituted law and authority, or who disbelieve in or are opposed to organized government, or

who advocate the assassination of public officials, or who advocate or teach the unlawful destruction of property;

(o) Persons who are members of or affiliated with any organization entertaining or teaching disbelief in or opposition to organized government, or advocating or teaching the duty, necessity, or propriety of the unlawful assaulting or killing of any officer or officers either of specific individuals or of officers generally, of the Government of Canada, or of any other organized government, because of his or their official character, or advocating or teaching the unlawful destruction of property;

(p) Persons guilty of espionage with respect to His Majesty or any of His Majesty's allies;

(q) Persons who have been found guilty of high treason or treason or of conspiring against His Majesty, or for assisting His Majesty's enemies in time of war, or of any similar offence against any of His Majesty's allies;

(r) Persons who at any time within a period of ten years from the first day of August, one thousand nine hundred and fourteen, were deported from any part of His Majesty's dominions or from any allied country on account of treason or of conspiring against His Majesty, or of any similar offence in connection with the war against any of the allies of His Majesty;

(s) Persons over fifteen years of age, physically capable of reading who cannot read the English or the French language or some other language or dialect: Provided that any admissible person or any person heretofore or hereafter legally admitted, or any citizen of Canada, may bring in or send for his father or grandfather, over fifty-five years of age, his wife, his mother, his grandmother or his unmarried or widowed daughter, if otherwise admissible, whether such relative can read or not and such relative shall be permitted to enter; for the purpose of ascertaining whether aliens can read, the immigration officer shall use slips of uniform size prepared by direction of the Minister, each containing not less than thirty and not more than forty words in ordinary use printed in plainly legible type in the language or dialect the person may designate as the one in which he desires the examination to be made, and he shall be required to read the words printed on the slip in such language or dialect;

(t) Members of a family (including children over as well as under 18 years of age) accompanying a person who has been rejected, unless in the opinion of the Board of Inquiry no hardship would be involved by separation of the family.

Section 3 (i) provides further that the prohibited classes shall include:

Persons who do not fulfil, meet or comply with the conditions and requirements of any regulations which for the time being are in force and applicable to such persons under this Act.

The regulations mentioned in this section are provided for by section 38 which reads as follows:

The Governor in Council may, by proclamation or order, whenever he deems it necessary or expedient,

(a) Prohibit the landing in Canada or at any specified port of entry in Canada of any immigrant who has come to Canada otherwise than by continuous journey from the country of which he is a native or naturalized citizen, and upon a through ticket purchased in that country, or prepaid in Canada;

(b) Prohibit the landing in Canada of passengers brought to Canada by any transportation company which refuses or neglects to comply with the provisions of this Act;

(c) Prohibit or limit in number for a stated period or permanently the landing in Canada, or the landing at any specified port or ports of entry in Canada, of immigrants belonging to any nationality or race, or of immigrants of any specified class or occupation, by reason of any economic, industrial or other condition temporarily existing in Canada or because such immigrants are deemed unsuitable having regard to the climatic, industrial, social, educational, labor or other conditions or requirements of Canada, or because such immigrants are deemed undesirable owing to their peculiar customs, habits, modes of life and methods of holding property, and because of their probable inability to become assimilated or to assume the duties and responsibilities of Canadian citizenship within a reasonable time after their entry.

In accordance with the powers delegated to the Governor in Council by the above section, several orders in council have been enacted. P. C. 23, dated January 7th, 1914, prohibits the landing in Canada of any immigrant who comes to this country otherwise than by continuous voyage from the country of which he is a native or naturalized citizen, and upon a through ticket purchased in that country or prepaid in Canada.¹¹

Another order in council, P. C. 183, dated January 31st, 1923, and amended by P. C. 642, dated April 11th, 1923, and P. C. 534, dated April 8th, 1926, provides that the landing in Canada of immigrants of all classes and occupations is prohibited, except the following persons, who otherwise comply with the provisions of the Immigration Act:

(1) A *bona fide* agriculturist entering Canada to farm and has sufficient means to begin farming in Canada.

(2) A *bona fide* farm laborer entering Canada to follow that occupation and has reasonable assurance of employment.

¹¹ See *Rex v. Barnstead*, (1920) 55 D.L.R. 287, where an immigrant was rejected by the immigration officer on this ground because he had lost his original ticket. The deportation order was reversed by the court.

(3) A female domestic servant entering Canada to follow that occupation and has reasonable assurance of employment.

(4) The wife or child under 18 years of age, of any person legally admitted to and resident in Canada, who is in a position to receive and care for his dependents.

(5) Any United States citizen entering Canada from the United States who shall satisfy the immigration officer in charge at the port of entry that he has sufficient means to maintain himself until employment is secured.

(6) Any British subject entering Canada directly or indirectly from Great Britain or Ireland, Newfoundland, the United States of America, New Zealand, Australia or the Union of South Africa, who shall satisfy the immigration officer in charge at the port of entry that he has sufficient means to maintain himself until employment is secured; Provided, that the only persons admissible under the authority of this clause are British subjects by reason of birth or naturalization in Great Britain, or Ireland, Newfoundland, New Zealand, Australia or the Union of South Africa.

(7) A person who has satisfied the Minister that his labor or service is required in Canada.

(8) The father or mother, the unmarried son or daughter eighteen years of age or over, the unmarried brother or sister, of any person legally admitted to and resident in Canada, who has satisfied the Minister of his willingness and ability to receive and care for such relative.

At the same time a similar order in council was passed to restrict Asiatic immigration (P. C. 182), the terms of which are as follows:

From and after the 15th February, and until otherwise ordered, the landing in Canada of any immigrant of any Asiatic race is hereby prohibited except as hereinafter provided:

The immigration officer in charge may admit any immigrant who otherwise complies with the provisions of the Immigration Act, if it is shown to his satisfaction that such immigrant is—

(1) A *bona fide* agriculturist entering Canada to farm and has sufficient means to begin farming in Canada.

(2) A *bona fide* farm laborer entering Canada to follow that occupation and having reasonable assurance of employment.

(3) A female domestic servant entering Canada to follow that occupation and has reasonable assurance of employment.

(4) The wife or child under 18 years of age, of any person legally admitted to and resident in Canada, who is in a position to receive and care for his dependents.

This order in council does not apply to any country with which Canada has a Treaty or Convention regulating immigration, as in the case of Japan.

Another order in council (P. C. 1413), dated August 7th, 1929, prohibits the landing in Canada of any "contract labor" immigrant, that

is to say, any person seeking entry to Canada under contract or agreement, express or implied, to perform labor or service of any kind in Canada.

In 1930 further restrictions were placed upon immigration into Canada, but apparently the order in council has never been published. In substance the right to enter Canada is restricted to the following persons:

(1) British subjects entering Canada directly or indirectly from Great Britain, Northern Ireland, The Irish Free State, Newfoundland, United States, New Zealand, Australia, or The Union of South Africa, who have sufficient means to maintain themselves until they secure employment.

(2) Citizens of the United States entering Canada from the United States, who have sufficient means to maintain themselves until employment is secured.

(3) The wife or unmarried child under 18 years of age of any person legally admitted to and resident in Canada, who is in a position to receive and care for his dependents.

(4) An agriculturist having sufficient means to farm in Canada.

In spite of the foregoing provisions the Minister is empowered¹² to issue a written permit authorizing any person to enter Canada without being subject to the provisions of the Act. Such permits have, in the past, been obtained from the Minister on representations made by persons who represented themselves as possessing influence in these matters. In view of the fact that it is considered necessary that the representation should be made by influential persons the way is open for the exploitation of the relatives of the immigrants in Canada. This method presents an additional difficulty in that it lends itself to political influence and political expediency in application for permits. These problems appeared very clearly in evidence given before the House of Commons Select Standing Committee on Immigration, which sat at Ottawa in 1923.

II

In this part we shall discuss the causes which render an alien, and in some cases a British subject, liable to deportation, and the machinery which has been created for the purpose of determining whether a person falls within the undesirable classes so as to render himself liable to be deported.

After the arrival of the immigrant into Canada he has a period of probation during which he is required to fit himself into the Canadian community. This probationary period is, generally speaking, five years. The period applies in the case of the alien as well as in the case of a

¹² Sec. 4.

British subject who is not a Canadian citizen, Canadian citizen being defined by the Act as: (i) a person born in Canada who has not become an alien; (ii) a British subject who has Canadian domicile or (iii) a person naturalized under the laws of Canada who has not subsequently become an alien or lost Canadian domicile.

For the purposes of the Immigration Act, Canadian domicile has a restricted meaning. It is defined by the Act as follows:

(i) Canadian domicile can only be acquired, for the purposes of this Act, by a person having his domicile for at least five years in Canada after having been landed therein within the meaning of this Act;

Provided that the time spent by a person while confined in or an inmate of any penitentiary, gaol, reformatory, prison or asylum for the insane in Canada shall not be counted in the period of residence in Canada which is necessary in order to acquire Canadian domicile; provided further that when an order is issued for the deportation of any person and an appeal therefrom has not been allowed by the Minister, or a permit to remain in Canada is issued by the Minister in the case of a person who has been previously landed and ordered deported, the time spent in Canada while such order or deportation or permit is in force shall not be counted in the period of residence which is necessary to acquire Canadian domicile; and provided further that no person who belongs to the prohibited or undesirable classes within the meaning of section forty-one of this Act shall be capable of acquiring Canadian domicile;

(ii) Canadian domicile is lost, for the purpose of this Act, by a person voluntarily residing out of Canada not for a mere special or temporary purpose but with the present intention of making his permanent home out of Canada, or by any person belonging to the prohibited or undesirable classes within the meaning of this Act;

(iii) Notwithstanding anything contained in the preceding subparagraph, when any citizen of Canada who is a British subject by naturalization, or any British subject not born in Canada having Canadian domicile shall have resided for one year outside of Canada, he shall be presumed to have lost Canadian domicile and shall cease to be a Canadian citizen for the purposes of this Act, and his usual place of residence shall be deemed to be his place of domicile during said year;

Provided that such presumption may be rebutted by production of the certificate of any British diplomatic or consular officer, in such form as may be prescribed by the Minister, that such person appeared before him before the expiration of said period of one year and satisfied such officer of his reasonable intention to retain his Canadian domicile; and in the case of a person who is a naturalized British subject such certificate shall be endorsed upon the certificate of naturalization of such person; the effect of such certificate shall be to extend said period for a further term of one year, and it may be further extended from year to

year in the same manner so long as the officer giving the certificate is satisfied of the *bona fides* of the application for extension in each case, provided that the total period for which extension may be granted shall not exceed five years.

It will thus be seen that, except in the cases provided for by section 41 of the Immigration Act and by the Opium and Narcotic Drugs Act,¹³ which are considered below, a person who has acquired Canadian domicile cannot be deported. Although domicile has the restricted meaning which we saw above, it would appear that an alien may lose his domicile in the same way as domicile of choice is lost at common law.

Included among the classes of persons subject to deportation are the following:

(a) Persons who fall within any of the prohibited classes set out in section 3 of the Immigration Act and mentioned in Part I, of this essay. The cause for prohibition must have arisen at or before the time the immigrant came to Canada. Such persons cannot acquire Canadian domicile since the definition of that term calls for a lawful entry into Canada within the terms of the Act.

(b) Prostitutes and their procurers and anyone associated with a house of prostitution.

(c) Persons convicted of a criminal offence involving moral turpitude.

(d) Beggars and vagrants.

(e) Persons who have become inmates of hospitals for the insane or the mentally deficient.

(f) Persons who have become a public charge or an inmate of a public charitable institution.

(g) Persons, other than Canadian citizens, who advocate in Canada the overthrow by force or violence of the Government of Great Britain or Canada or any part of the British Empire, or the assassination of Government officials, or who attempt to create disorder in Canada, or who belong to organizations which attempt to control the residents of Canada by threats or by blackmail. Such persons may be deported at any time, whether they have acquired Canadian domicile or not. We should note that even if a person has acquired Canadian citizenship by naturalization it would be possible for the Secretary of State to revoke the naturalization certificate and subsequently the alien could be deported. Apparently, however, a British subject who becomes a Canadian citizen by acquiring Canadian domicile would not come under this head.

(h) Aliens, whether they have acquired domicile or not, convicted under the Opium and Narcotic Drugs Act of the following offences and sentenced to a term of imprisonment:

¹³ *Statutes of Canada*, 19-20 George V, Chap. 49.

(i) Importing into, or exporting from, Canada any drug without license from the Minister.

(ii) Having in his possession any drug without a license from the Minister.

(iii) Unlawfully selling or distributing drugs to a minor.

(iv) Manufacturing, selling or distributing any drug without license from the Minister.

(i) Persons other than Canadian citizens, or persons having Canadian domicile, who have become inmates of any penitentiary, gaol or prison.¹⁴

We shall now discuss the procedure whereby the attention of the authorities is drawn to the fact that a person who has entered into Canada is, or has become, subject to deportation, and the manner in which he is deported. In the case of persons who come under the provisions of section 40 (see clauses (a) - (f) above) and section 41 of the Act, it becomes the duty of any officer cognizant of the fact, or of the clerk of the municipality, to send forthwith to the Minister a complaint giving full particulars.

An "officer" means any immigration officer or inspector or any officer of customs. As to immigration officers, it is their duty to assist in the administration of the Immigration Act. On the other hand, the clerk of the municipality has a special duty imposed on him and the press of western Canada has recently discussed the question as to whether it would be possible to compel a clerk of a municipality to perform this duty. The obligation which rests on the clerk is particularly difficult in times such as these when an immigrant may become a public charge, and thus subject to deportation, for reasons which are entirely beyond his control. However, that is a matter of policy with which we are not concerned in this discussion. Upon receipt of the complaint by the Minister, he may order that the person be taken into custody and detained at an immigration station for examination and he also orders an examination and investigation into the facts by a Board of Inquiry or officer acting as such. Such Board has authority to determine whether the person should be deported or not, and the Board possesses the same powers, and follows the same procedure as in the case of a person who is being examined when he seeks to enter or land in Canada. Such person has similar rights to be present and represented by counsel when evidence is being received, as in the case of an immigrant entering Canada. It has been held that the duty of the Board to permit the

¹⁴ In this connection there would appear to be a possibility of hardship. Let us suppose that John Doe has committed a criminal offence and the punishment imposed by the court is a fine. If Doe is able to pay the fine he would not be liable to deportation under this head, whereas inability to pay the fine renders him liable to deportation, although the gravity of his offence is no greater than in the first case.

alien and his counsel to be present when evidence is being received is sufficiently satisfied where counsel is notified that evidence is being taken at a certain place, whether he does or does not attend.¹⁵ If the Board of Inquiry is satisfied that the person belongs to any of the prohibited or undesirable classes it orders that he should be deported. The person then has the right to appeal to the Minister, and, as we have already pointed out, the duty of deciding the appeal rests with the Minister himself, and cannot be delegated to his subordinates. Just as in the case of a decision by the Minister under Part I above, so also in connection with deportation proceedings, section 23 of the Act declares that the decision of the Minister is final. However, as we have already pointed out, the courts have taken jurisdiction to review the findings of the Board and of the Minister, to see whether the procedure has been proper and whether the respective officers have acted within their jurisdiction. On occasion the courts have ordered that immigrants should be released because the procedure was improper, in fact in *Samejima v. The King*,¹⁶ Duff, C.J. expressed himself as horrified by the procedure which had come to his attention in that case. This is not to be taken as condemnation of all immigration procedure but it is at least some evidence that not all proceedings are entirely in accordance with the principles of "natural justice."

III

The proceedings of every inferior court and of every administrative tribunal, until recently at any rate, have been subject to judicial review; that is to say, the superior courts possessed an inherent jurisdiction to review the proceedings and decisions of inferior bodies exercising judicial functions, to see if they were regularly had or made. This power of supervision was exercised through the medium of the prerogative writs, two of which, *habeas corpus* and *certiorari*, are applicable to procedure under the Immigration Act. As the scope of administrative activities was extended and as more and more power was given to administrative officials to make decisions, the courts imposed limits on the extent of their review. This tendency may be illustrated from a dictum of Lord Bramwell in *Allcroft v. Lord Bishop of London*,¹⁷ where he said: "If a man is to form an opinion and his opinion is to govern, he must form it himself." The House of Lords held in that case that it was not within its province to substitute the discretion of the law lords for that of the administrative officer on whom parliament had conferred the power to make a certain decision. In accordance with the tendency thus

¹⁵ *Re Low Hong Hing*, (1926) 3 D.L.R. 692.

¹⁶ (1932) 4 D. L. R. 246.

¹⁷ (1891) Appeal Cases 666, at p. 678.

exemplified we find that the courts limit themselves, in reviewing the decisions of administrative officers, to two matters: (a) Whether the official has acted within his jurisdiction, and (b) Whether the principles of "natural justice" have been observed. As to the latter head, Lord Donoughmore's Committee sitting in 1932, summed up the principles as follows: No party ought to be condemned unheard, a party must know in good time the case which he has to meet, and no man ought to be judge in his own cause.

These are the principles which the courts have evolved at common law. The Immigration Act, however, in section 23 states that "no court, and no judge or officer thereof, shall have jurisdiction to review, quash, reverse, restrain or otherwise interfere with any proceeding, decision or order of the Minister or of any Board of Inquiry, or officer in charge, had, made or given under the authority and in accordance with the provisions of this Act relating to the detention or deportation of any rejected immigrant, passenger or other person, upon any ground whatsoever, unless such person is a Canadian citizen or has Canadian domicile." We have, therefore, to consider the effect of this section upon the doctrines of the common law. Many of the cases which have come before the courts seem to imply that section 23 is an absolute bar to judicial review of the proceedings or decisions of immigration officers.¹⁸ A careful examination of the cases, however, discloses that the immigration officers or the Board of Inquiry acted within their jurisdiction, that the principles of "natural justice" had been adequately observed and that there was beyond doubt sufficient evidence to support the finding of the officer or the Board as the case may be. Consequently, the courts would not have interfered with the decisions in these cases even if section 23 had not seemed to bar review.

On the other hand there are a number of cases in which the courts have found that the immigrant or deportee was not properly held in custody, and, to order the discharge of such person, they had to get round section 23. In order to accomplish this end they have placed the emphasis on the phrase "made under the authority and in accordance with the provisions of this Act." As McKeown, C. J., said in *Rex v. Lantalum: Ex parte Offman*: "I think that the words 'under the authority and in accordance with the provisions of this Act' are the pivotal words of this section."¹⁹ If the order for deportation or detention is not made "under the authority and in accordance with the provisions" of the Act the officer or the Board purporting to make the order acted without juris-

¹⁸ *Re Gottesman*, 41 Ontario Law Reports, 547; *Rex v. Schoppelrie*, 1919) 31 Canadian Criminal Cases 255; *Re Wong Si Kit*, (1921) 36 C. C. C. 36; *Re Munshi Singh*, *supra*.

¹⁹ *Rex v. Lantalum, Ex parte Offman*, (1921) D.L.R. 223.

diction and the courts are competent so to declare, and to quash the deportation order.²⁰

The majority of the cases where the courts have reversed the decisions of the immigration officials on the ground that they lacked jurisdiction have been cases in which some essential formality had not been observed, such as a failure to set out the ground of complaint with sufficient particularity. They have made little use of their jurisdiction to reverse a finding on the ground that the principles of natural justice have not been observed, although they make it clear in several cases that they would exercise jurisdiction in such cases in spite of section 23.²¹ The reason for their failure to avail themselves of this ground is probably due to the fact that they have accomplished their purposes in all cases by basing their decisions on lack of jurisdiction in the officer or Board.

It would appear that an immigration official or Board of Inquiry must lay before a superior court, on the return of a writ of *certiorari*, a complete transcript of the evidence and proceedings had and taken before such official or Board, or otherwise, and that a duty lies on the official or Board even for self protection, for clearly there can be no adequate review by a superior court apart from the complete evidence in the hands of the inferior tribunal.

Now let us assume an argument that complete evidence is before a superior court on which a decision for deportation has been made by a Board of Inquiry. Let us assume further that on the face of the proceedings there is no question of jurisdiction at stake. We are now in a position to ask, may a superior court decide that the evidence before it does not warrant deportation, and the order be quashed? To this question no categorical reply can be given, but it would appear from the cases that the superior courts have on occasion deduced from the evidence a decision different from that of the Board of Inquiry. Generally speaking, the courts are reluctant to substitute their discretion for that of the officer whose duty it is to make the decision in the first place. Thus if there is any evidence to support the finding, the courts will not interfere even though the members of the court feel that they might have decided the case differently were it before them at first instance. If, however, there seems to be very little or no evidence to support the decision, the court will reverse the decision for lack of jurisdiction. This principle has been established in cases outside the sphere

²⁰ *Re Walsh*, (1913) 13 D.L.R. 288; *Re Gardner*, (1913) 12 D.L.R. 610; *Re Thirty Nine Hindus*, (1913) 15 D.L.R. 189; *Rex v. Barnstead*, (1920) 55 D.L.R. 287; *Samejima v. The King*, (1932) D.L.R. 246.

²¹ *Re Munshi Singh*, (1914) 6 W. W. R. 288; *Re Low Hong Hing*, (1926) 3 D.L.R. 692.

of immigration,²² and has been applied in a number of immigration cases.²³ In conclusion therefore it would appear that section 23 has not altered the common law jurisdiction vested in the courts, to review the actions of administrative officials, to any appreciable extent.

M. HANCOCK.—In dealing with naturalization in Canada it is proposed to treat this topic in three distinct sections:

I. The historical background of the present law.

II. The administrative process of naturalization.

III. Some of the more important effects of this step on the rights and duties of persons who take it.

I

Ever since Elizabeth's time, English law has recognized the capacity of parliament to confer on aliens a special status entitling them to the rights and privileges of natural born subjects. Apart from special statutes, the royal prerogative included a power to confer a certain limited status upon foreigners by letters of denization, a power which the most recent legislation leaves intact.¹ Denizens did not, however, enjoy all the rights of naturalized subjects and since 1844² when it became possible to obtain the more ample status through certification without a special statute, denization fell into desuetude.

Almost from their inception colonial legislatures purported to exercise the same power of naturalizing resident aliens, but English legislation at the middle of the last century was only prepared to recognize this capacity as effective within the borders of the respective colonies. A series of imperial acts, 1847-1870, laid down this restriction in the

²² *The 'Leonor,'* (1917) 3 W. W. R. 861; *Rex v. Commanding Officer of Morn Hill Camp*, (1917) 1 K. B. 176; *Colonial Bank v. Willan*, (1874) L. R. 5 P. C. 417.

²³ In *Re Munshi Singh*, *supra*, although the court held that it had no jurisdiction to inquire as to whether there was any evidence to support the finding of the Board of Inquiry, yet they went on to point out that they would inquire as to whether the Board was acting within its jurisdiction. It is submitted that this distinction is based on a misconception and that the question as to whether there is any evidence to support the finding goes to the jurisdiction. This would appear to be the reasoning in *Re Low Hong Hing*, *supra*.

¹ *Revised Statutes of Canada*, 1927, Chap. 138, Sec. 34.

² *Public General Acts of the United Kingdom*, 7 and 8 Victoria, Chap. 66.

clearest terms. Section 16 of the Naturalization Act of 1870 read as follows: "All laws, statutes, and ordinances which may be duly made by the legislature of any British possession for imparting to any person the privileges or any of the privileges of a British subject, to be enjoyed by such persons within the limits of such possession, shall within such possession have the authority of law."³ In other words, the rise of colonial self-government constituted a centrifugal force which tore this imperial function to pieces. It is interesting to note that back in 1739 the British parliament had provided that certain foreigners might become naturalized in the colonies merely by taking an oath before colonial judges. Such persons were then to be "deemed, adjudged and taken to be His Majesty's natural-born subjects of the kingdom to all intents, constructions and purposes as if they . . . had been born within this kingdom."⁴ But this older measure was swept away in 1870.

The situation in which persons naturalized here were aliens in England while those naturalized there remained aliens in Canada was early felt to be anomalous.⁵ In 1881 a writer in the *Canadian Law Times* complained that some legislative change was necessary. His article contains dark hints that the British Act of 1870 does not affect Canada or that if it does it is in some vague sense "unconstitutional."⁶ In 1863 Lord John Russell had gone so far as to issue a circular from the Foreign Office refusing diplomatic protection abroad to persons naturalized in the colonies. Two years later the Crown's law officers gave the contrary opinion that all His Majesty's subjects wherever naturalized were entitled to the government's protection, subject to a qualification later discussed.⁷ Astute publicists of international law were not slow to point out that Britain could hardly expect other countries to recognize persons as her subjects who did not enjoy that position within her borders.⁸ Whether or not such persons were affected by the extraterritorial operation of certain imperial statutes purporting to deal with "British subjects" was considered a moot point. The essential harshness of the situation was most clearly brought out in the famous Markwald case after definite steps had been taken towards

³ *Op. cit.*, 10 and 11 Victoria, Chap. 83, Sec. 16.

⁴ *Ibid.*, 13 George II, Chap. 7, repealed by the Naturalization Act, 1870.

⁵ Possibly Section 7 of the Act of 1870 did not deprive persons naturalized in Great Britain of their status when within the colonies. See the *Law Quarterly Review*, Vol. 30, p. 433, and E. F. W. Gey Van Pittius' interesting book, *Nationality within the British Commonwealth of Nations* (London: King, 1930), p. 49 ff.

⁶ *Canadian Law Times*, Vol. 1 (January, 1881), p. 8; also *ibid.*, Vol. 31, p. 837.

⁷ *Ibid.*, Vol. 25 (April, 1905), p. 181 ff.

⁸ *Ibid.*

amelioration.⁹ Heinrich Hermann Markwald, born in Germany but naturalized in Australia, after thirty years' residence there, came to England in 1908. The Aliens Restrictions Order in Council of 1916 penalized all aliens within the kingdom who failed to register certain "particulars"—a wartime precaution. Markwald omitted to register, was convicted, and appealed on the ground that his Australian naturalization made him a British subject. The King's Bench Division held unanimously that he was only an alien in England. A. T. Lawrence, J., remarked, "If this certificate of naturalization had purported to confer upon him the rights of a British subject within the United Kingdom it would have been *ultra vires*." And further down he added, "This seems to be the result in law and I cannot ignore the fact that the practical considerations which would determine the grant or refusal of naturalization in far away Australia are different from those which ought to guide the authorities in granting naturalization within the United Kingdom."¹⁰ The same conclusions were arrived at in further proceedings taken by Markwald in the Chancery Division and the Court of Appeal.

A Canadian court met with an even more peculiar problem when in 1918 a Norwegian, naturalized in Canada, was conscripted. He claimed relief on the ground that since "he was a British subject, only 'within Canada' and that inasmuch as from the preamble of the Military Service Act it was obviously intended to send him overseas for duty, he would not, after he arrived there, be a British subject at all and was, therefore, not subject to the Act and not liable to be called up for service."¹¹ Before the court arrived at its conclusion the war ended, but it was only by the most ingenious juristic sophistry that the judges evaded the logic of the Markwald case and upheld the legality of the conscription.

In 1899 an inter-departmental committee in England recommended that some means be established in co-operation with the colonies for conferring an imperial nationality effective throughout the empire. But in 1905 another Canadian writer remarked in the pages of the *Canadian Law Times* that "Such is the proverbial slowness of law reform in Britain that so far nothing has been done to carry out the recommendations of the committee."¹² A second committee of 1909 and the two Imperial Conferences of 1907 and 1911 pondered the matter before the present act was passed through the British parliament in 1914. It provided that any Dominion adopting certain sections should have power to confer a new naturalization status which should be effective through-

⁹ *Rex v. Francis, Ex parte Markwald*, (1918) 1 King's Bench 617, 87 Law Journal King's Bench 620; *Markwald v. Attorney General*, 36 Times Law Reports 197 (1920) 1 Chancery 379.

¹⁰ 87 L. J., K. B. 624.

¹¹ *Re Solvang*, 43 Dominion Law Reports, p. 549.

¹² *Canadian Law Times*, Vol. 25 (April, 1905), p. 198.

out the empire and the world.¹³ The reform was long overdue and is one of the few permanent achievements of the Imperial Conferences. Lord Emmott, speaking on the Bill in the Lords, said: "I do not think that any better example would be given of the increasingly practical value of the consideration of subjects of general interest to the Empire at Imperial conferences than the discussion of this question of naturalization at the Imperial Conference of that year." And in another part of his speech, "What I do claim for this measure is that it furnishes some useful cement for the empire, that it does something to bind the empire together, that it rounds off the structure of British citizenship and by filling up some of the cracks in the old building, removes a long-felt grievance in some of the Dominions."

The special sections of the act were adopted in Canada during the same year, according to the agreement arrived at by the Imperial Conference. Together with certain regulations, authorized by them, these sections constitute the whole of our law relating to naturalization. Although, in form, it is merely an act of the Canadian parliament, its effectiveness in other parts of the empire depends upon its similarity to legislation in Britain and the other Dominions so that any alteration not unanimously sanctioned by an imperial conference would nullify it.

II

Prior to 1914 when Canada's legislative power could only effect a local change in status, naturalization certificates which formed conclusive evidence of the change might be obtained from any judge. Under the modern act, the power of the judges is confined to making recommendations; the actual issue of the certificates lies in the hands of the Secretary of State. First and most important to be noted is that no one has a right to such a certificate. If a person fulfils certain conditions, set down in the act, the Secretary of State may, in his own absolute discretion, grant the certificate. He need assign no reason for his refusal and no appeal lies from his decision. No one may apply for naturalization who is under a disability, that is, no one who is a minor, a lunatic or a married woman. It would seem to be impossible for a lunatic to shake off his alien status in Canada; married women and minor children are specially provided for. Children may only become Canadians along with one of their parents by the special inclusion of the child's name in the parents' certificate. Married women can change their allegiance only after their husbands decide to do so. They need not even then but if they so desire they must make a formal declaration before a witness, verified by affidavits, and send it to the Secretary of State.

Apart from these special classes and others to be considered, the ordinary applicant must satisfy the secretary of five essential facts:

¹³ British Nationality and Status of Aliens Act, 1914.

1. That he has resided in Canada for a year preceding the application and for four years out of the last eight. This qualification is not necessary if he can show that he was in the Crown's service for five years within the last eight.
2. That he, the applicant, is "of good character."
3. That he has an adequate knowledge of French or English.
4. That he intends, the application being granted, to reside in His Majesty's Dominions or to enter or continue in the service of the Crown.
5. That he is not under any disability.

The procedure is bifurcate, somewhat analogous to that of extradition. Before the aspiring Canadian receives an answer to his petition from the Secretary of State he must first obtain a judicial decision that he is qualified in the five respects stated. The application must be posted in the office of the clerk of the Superior or County Court in which it is made for at least three months. During this time anyone may file in court an opposition to the naturalization. No provision is made in the Act or the regulations for dealing with such oppositions during the hearing. Prior to 1914 when the judge's decision was conclusive they were of more significance and an Act of 1908 provided that the Court should deal with them "as the justice of the case requires." They were a useful check on fraud but the thorough control of the Secretary of State and the federal police have made them obsolete to-day.¹⁴

The active and positive force in this machinery is the Royal Canadian Mounted Police. When an application is made for a judicial decision of fitness, the clerk of the court is obliged to send a copy of it to the State Department. Thence it finds its way into the hands of the R.C.M.P. officers nearest to the petitioner's residence, giving them essential facts about the petitioner. They at once interview him, question him regarding his previous movements in Canada, and ask him for the names of two persons prominent in his locality who know him personally. These references must both be Canadian citizens, not, however, in the strict sense of the Immigration Act. From them the police try to obtain information regarding the petitioner's reputation. If suspicious, they look into his "police record." These officers seem to attach importance chiefly to convictions for serious crimes and suspected connections with Communism. For a time after the war they were astute to discover any traces of disloyalty or misconduct in alien enemies, but vigilance in this matter has been relaxed. All the information gathered is written into a secret form and returned to Ottawa. The Department if it considers it advisable then places this report in the hands of the judge who is to make the report.

The duty of the judges under the Act is not clearly defined nor, as we have noted, is their decision by any means conclusive. Such

¹⁴ *In Re Sadjiro Malsufuro et al*, 13 British Columbia Reports, p. 417. But see remarks of Meredith, C. J., in *Re Cimonian* 34 Ontario Law Reports, p. 129 at p. 134.

decisions are very rarely reported in Canada, contrary to the American practice. It is by no means clear whether an adequate knowledge of English or French included ability to write as well as read. The Department admits that some judges require more evidence than do others upon the five important points. Yet in one of the few reported decisions *Re Naturalization Act, 1928*,¹⁵ Meredith, C.J., said: "It is of the utmost importance that the law should be administered evenly—that the country shall not be open to the reproach that its laws are uneven." Having regard to this ideal, he recommended five illiterate aliens because "the great majority of the hundreds of persons clothed with the same authority would so decide in like cases." He added that, "the general practice seems to be to decide in favor of the applicant when his papers show compliance with the express qualifications provided for in the Act."

There exists an interesting clash of judicial opinion on the question whether naturalization has always been a creation of statutes. During the World War the Archambault, J., ruled in a Quebec circuit court that "the quality of German or Austrian aliens in the present state of affairs is not an obstacle to their naturalization in Canada."¹⁶ Chief Justice Meredith in Ontario and the Court of Appeal in Alberta arrived at an opposite conclusion shortly afterward.¹⁷ All the decisions were based on the older Canadian Naturalization Acts, but neither they nor the present Act contain any terms dealing directly or indirectly with the problem. Reference to the common law would, of course, be vain since naturalization has always been a creation of statutes. During the World War the State Department, acting under present legislation, rejected all applications by alien enemies.

What is the effect of prior conviction for offences against the public law upon an applicant's position? There is no absolute rule of law that such a person must be rejected and many of them are in fact successful. Logically, the question in each case should be how far the conviction is evidence of "bad character" in the applicant, having regard to all the circumstances of the offence. Moreover, conviction which results in an alien becoming an inmate of a gaol, even through failure to pay a small fine, will render him liable to deportation if the imprisonment occurs during his first five years of residence in Canada.¹⁸ In *Re Bresnik*,¹⁹ one of the very few decisions under the act which are reported, Swanson, Co.Ct.J., recommended the applicant, although he had been twice convicted of minor offences, i.e., drunkenness and selling liquor to the

¹⁵ 34 Ontario Weekly Notes, 143. Also *re Cabulak* 19 Western Law Reports, p. 171.

¹⁶ *Re Herzfeld*, (1914) Quebec Reports, 46 Superior Court, p. 281.

¹⁷ *Re Cimonian*, 34 O.L.R. 139; 23 D.L.R. 363.

¹⁸ *Revised Statutes of Canada, 1927*, Chap. 38, Sec. 40, *Re Pong Fook Wing*, 41 Canadian Criminal Cases 42.

¹⁹ 34 C. C. C. 167.

Indians. Being unable to pay a \$150 fine for this latter transgression he served six months in gaol but the report does not indicate whether or not he had previously acquired a five years domicile. The decisions of the judge upon each of the five points essential to the petition must be endorsed thereupon; the clerk of the court then sends the petition to the Secretary of State for his consideration. There is apparently nothing to prevent an applicant to whom the judge has refused a favorable decision from applying to another judge with jurisdiction in Naturalization.²⁰ The previous application's dismissal would doubtless be brought by the Department to the attention of the second judge who could give it what weight he saw fit. A favorable judicial report creates no rights in the petitioner; it simply makes him eligible for citizenship. Nothing in the Naturalization Act suggests that the Secretary might not grant a certificate even in cases where a judge had rejected the applicant, as Chief Justice Meredith has pointed out,²¹ but the Department has strictly adhered to the policy of enforcing the negative decisions of the judges. Judicial practice, however, is not by any means uniform; recommendations have reached the Department which would suggest that some judges were not fully aware of the provisions of the Act.

In making his decision, the Secretary relies principally upon the reports of the R.C.M.P., and of the Immigration Department. The latter body can usually fix the time and circumstances of the applicant's arrival in Canada. Suspected communist affiliations or conviction for serious crimes are bars to the Secretary's approval. The lapse of time since an offence may mitigate its importance in the eyes of the Department. As we have seen, the jurisdiction of the Secretary in dealing with petitions is practically undefined; this has the important result in law that he will not be forced by the courts to act "judicially." That is to say, he need not observe the maxim, *audi alteram partem*, nor other precepts of natural justice; he may act unfairly and without evidence. A wide discretion imports a "do-as-you-please" quality to his decisions which the courts would probably recognize by holding that he is "an executive officer."²² So far as I know, no one has attempted to challenge his action, nor that of similar officials in other Dominions or England, in the courts of justice.

Orientals occupy a rather unique position in relation to naturalization. P.C. 1378 of June, 1931, orders that the issue of certificates to persons of Chinese and Japanese origin be limited to those who produce evidence that they have already renounced their former allegiance. This procedure is possible under Chinese law²³ but not under Japanese law.

²⁰ *In Re Naturalization Act* 34 O. W. N. 143 at 144.

²¹ *Re Naturalization Act* 34 O. W. N. 143.

²² For a similar function see *Ex parte Venicoff*, 89 Law Journal King's Bench 1200.

²³ *Chinese Law of Nationality*, Article 12, (2) (d).

Although P.C. 1378 refers to article 20 of the Japanese Law of Nationality that article merely provides that Japanese naturalized abroad lose their Japanese allegiance *ipso facto*. Hence this conflict of laws has made naturalization of Japanese in Canada impossible since June 17th, 1931.

It may not perhaps be out of place to point out that our law corresponds exactly to that of Japan in that it makes no provision for a British subject abandoning his allegiance except by the act of becoming naturalized in a foreign state.²⁴ Any other scheme would result in the person in question remaining stateless between the renunciation of his former nationality and his subsequent naturalization. Two questions suggest themselves. If P.C. 1378 is merely a precaution against double nationality, why is it levied against Chinese and Japanese alone? Secondly, why was it necessary to pass an order in council at all? The discretion of the Secretary is unrestricted and absolute; since no provision is made by the act for controlling it by regulations, P.C. 1378 may even be *ultra vires*.²⁵ It is said that since 1923 "few, if any, certificates of naturalization have been granted to Orientals."²⁶

Having traced the conditions and the procedure of ordinary naturalization we may notice certain special classes of persons who, due to the unusual circumstances of their case, may obtain certificates upon more lenient terms. In none of these cases do the regulations under the Act demand a judicial hearing to decide upon the applicant's fitness.²⁷

First of all, there are the wives or minor children of persons obtaining certificates in the ordinary way. To these we have already alluded. The children acquire our nationality by mere inclusion of their names in their father's or mother's certificate. Since the infants themselves have little or no choice in the matter, they may make a declaration of alienage upon attaining majority, just as if British nationality had been foisted upon them by the conflict of *jus soli* and *jus sanguinis*.²⁸ The wife of a naturalized alien may join him in his new status within six months by making a formal declaration that she wishes to do so, forwarded to the Secretary of State, upon which "she shall be deemed to be a British subject."²⁹ The regulations under the Act, however, direct the Secretary to send her a special certificate.³⁰ Apparently, he has no option to do otherwise for the regulation is mandatory and the plain words of the Act declare her to be a British subject.

²⁴ *Revised Statutes of Canada, 1927*, Chap. 138, Sec. 16.

²⁵ The only rule-making power in the act is closely defined and deals merely with procedural details, Section 28.

²⁶ H. F. Angus, *Legal Status in British Columbia of Oriental Races* (Pamphlet of Canadian Institute of International Law) p. 15.

²⁷ P. C. 1765, regulation 13 (published by the Department of State).

²⁸ *Revised Statutes of Canada, 1927*, Chap. 138, Sec. 7.

²⁹ *Ibid.*, Chap. 138, Sec. 13, Subsec. (5).

³⁰ P. C. 1765, regulations 19, 20, 21, 22.

The second group consists of those who have already received naturalization under the old regime of territorial limitations, such as the unfortunate Mr. Markwald. To these persons the Secretary may grant the new certificates on "such terms and conditions as he sees fit."³¹ A petition in special form accompanied by the old local certificate or an explanation for its absence should be sent to the Secretary. But he has his ordinary power to grant or refuse the new certificate and may, if he wishes, leave the applicant with his partial and obsolete allegiance.

The third class is made up of women who, although at one time British subjects, have lost that condition by marrying an alien and taking his. Upon the death of the husband, or the dissolution or annulment of the marriage, the wife may receive naturalization from the secretary without fulfilling the qualifications as to residence.³² By a somewhat recent provision of the Act (in force, January 15th, 1932,) an enemy alien's wife who was born a British subject may make a declaration that she desires to resume British nationality. The Secretary, "if satisfied that it is desirable that she be permitted to do so, may grant her a certificate of naturalization."³³ This latter privilege is apparently not open to women whose pre-marital British nationality was based on any other mode of acquisition than birth.

The fourth special class are persons who claim to have British nationality but whose claim is open to doubt. To them, upon petition, the secretary may "in his absolute discretion, in such cases as he thinks fit, grant a special certificate of naturalization."³⁴

III

In discussing the effect of naturalization upon the legal and civil rights of the grantee, it is only intended to call attention to the difference between his status and that of a subject whose allegiance derives from birth, marriage, or annexation. To mention all the advantages of a naturalized subject over an alien would be to compose a paper on the general status of aliens. We may, however, begin with section 5 of the Naturalization Act.

"A person to whom a certificate of naturalization is granted by the Minister shall, subject to the provisions of this Act, be entitled to all political and other rights, powers and privileges, be subject to all obligations, duties and liabilities, to which a natural-born British subject is entitled or subject, and as from the date of his naturalization have to all intents and purposes the status of a natural-born British subject."

³¹ *Revised Statutes of Canada, 1927*, Chap. 138, Sec. 8.

³² *Ibid.*, Chap. 138, Sec. 4, Subsec. (5).

³³ *Ibid.*, Chap. 138, Sec. 13, Subsec. (6).

³⁴ *Ibid.*, Chap. 138, Sec. 6.

This section might be called the Magna Charta of naturalized Canadians. It is only, however, part of an ordinary act of parliament and as such liable to be repealed or to be insidiously whetted away by future enacted exceptions. Furthermore, it is only an act of the Dominion parliament and can only confer such "political and other rights, powers and privileges" as are in the gift of the Dominion Government. It cannot, for example, confer the right to vote at provincial elections, since this matter is under the control of the respective provinces.³⁵

As pointed out above the Naturalization Act differs from other acts of the parliament of Canada in that its general terms were agreed to in advance at the Imperial Conference of 1911 and any changes made in it by the parliament of Canada might not be recognized in Great Britain or the other parts of the empire. It should also be noted that the powers of the provincial legislatures to discriminate against aliens under the guise of legislating for property and civil rights, etc., is a debatable one.

Without attempting to draw the fine line between provincial and federal jurisdictions, we must recognize that although the Dominion possesses exclusive legislative authority over "naturalization and aliens,"³⁶ the provinces are quite competent to enact laws which discriminate against naturalized British subjects or bear harshly upon them.³⁷ Such legislation is common in British Columbia where special restrictions and impositions are laid upon Orientals. The discriminations are based upon race, not nationality, so that naturalized Chinese or Japanese are affected equally with their alien brethren. These British Columbia laws have been well summarized by Professor Angus so that no purpose would be served by reiteration.³⁸

A newly naturalized Canadian becomes, of course, something more than a British subject. He attains the rather hollow distinction of being a Canadian national.³⁹ What is much more important for him is that he now possesses Canadian citizenship within the meaning of the Immigration Act. That many-toothed statute prevents certain large and roughly defined classes of persons from entering Canada, providing machinery for their deportation if they do come in. The only persons who may safely be members of these "prohibited classes" without losing their rights of entry are Canadian "citizens" and persons domiciled here for five years.⁴⁰ Canadians who have not been born in Canada

³⁵ *Attorney General of British Columbia v. Tomey Hommas and Attorney General of Canada*, (1903) Appeal Cases 157.

³⁶ British North America Act, Section 91.

³⁷ *Quong Wing v. Rex*, (1914) 49 Supreme Court Reports 440; *Tomey Hommas' case* (supra).

³⁸ H. F. Angus, *op. cit.*, pp. 7-11.

³⁹ Canadian Nationals Act (1921), *Revised Statutes of Canada 1927*, Chap. 21.

⁴⁰ *Ibid.*, Chap. 138, Sec. 6.

by residing outside Canada, with the intention of remaining outside, or, may lose both their Canadian citizenship and their Canadian domicile in any case, by residing out for over one year.⁴¹ In this respect the naturalized Canadian is in a position inferior to that of the Canadian born in this country who cannot lose his Canadian citizenship except by becoming an alien voluntarily. To the naturalized subject, loss of Canadian domicile means loss of Canadian citizenship; loss of Canadian citizenship will result in exclusion from this country if he happens to be within the "prohibited classes." Indeed, so carelessly has the Immigration Act been drafted that it seems to suggest that domicile and citizenship might be lost *ipso facto* by "belonging to a prohibited class."⁴² The Department of Immigration has never taken this view, however, although they might, under special circumstances, be glad to avail themselves of it. It should be remembered, however, that this high-sounding but slippery dignity of Canadian citizenship is simply a term of art among immigration officials, very important at the border but having no effect upon civil or political rights.⁴³ The outstanding difference between the positions of a naturalized subject and other subjects lies in the special power of the Secretary of State to revoke certificates.⁴⁴ Natural-born subjects can never be deprived of their nationality except by their own voluntary act,⁴⁵ but the status of a naturalized person is always subject to certain provisions of the act, at the mercy of the Governor in Council.⁴⁶ Revocation by the Governor in Council takes place upon the report of the Secretary of State when the Governor is satisfied that the person whose certificate is questioned has done one of the seven things, viz.:

⁴¹ The Department of Immigration does not enforce this section where the residence in question has been outside Canada but within the empire. H. F. Angus, *American Journal of International Law*, Vol. 28, No. 1 (January, 1934), p. 76.

⁴² The Immigration Act, *Revised Statutes of Canada, 1927*, Chap. 93, Sec. 2 (e) (ii).

⁴³ *Newmann v. Bradshaw*, 25 B. C. R. 492.

⁴⁴ The Secretary of State for Canada may revoke certificates of naturalization granted elsewhere in the dominions with the consent of the government of that part, *Revised Statutes of Canada, 1927*, Chap. 138, Sec. 9, Subsec. (6).

⁴⁵ One peculiar exception is the British-born wife of a naturalized citizen whose papers have been revoked. She may be deprived of her nationality if her position is such that, had she been a naturalized, not a natural-born subject, her papers might have been cancelled. Minor children of a parent who loses the benefit of naturalization would also seem to lose their status even though British-born if the Governor so directs. See *Revised Statutes of Canada, 1927*, Chap. 138, Sec. 10.

⁴⁶ On revocation generally see sections 9 and 10 of the Naturalization Act.

- (1) obtained his certificate by fraud or the concealment of material circumstances,
- (2) was not of good character at the time of granting the certificate,
- (3) shown himself by act or speech to be disloyal or disaffected to His Majesty,
- (4) traded with the enemy during any war,
- (5) been sentenced within five years of the grant of the certificate to imprisonment for over one year or to a fine over \$500,
- (6) has resided outside the empire for over seven years without maintaining substantial connections with His Majesty's dominions,
- (7) remains according to the law of a state at war with H.M., a subject of that state.

Before making his report to the Governor in Council, the Secretary may refer the case to a commission with the powers of a court presided over by some person who holds or has held high judicial office. Cases under (1), (2), (3), (4), or (7) must be referred to such a judicial commission if the person in question insists upon this right.

What right of redress in the courts of law would a person have under this part of the Act? Could the courts take any effective action whatever provided the Governor in Council did not exceed the legal limits of his jurisdiction? Although it is very difficult to predicate or define such rights in the absence of decided cases, it is submitted, with hesitation, that the reportorial duty of the Secretary is what administrative lawyers call "a judicial function."⁴⁷ It is quite true that the report is not conclusive in any way but it seems to be intended as the sole basis of the Governor in Council's decision which in turn appears to be of a purely formal nature. Furthermore, the duty is confined to informing the Governor in Council whether one of several given sets of facts exists; no discretion is vested in the Secretary to decide upon any matter of policy. The fact that the Secretary may or must refer the case to an obviously judicial sub-enquiry also suggests that he himself is not to act in an arbitrary manner. Assuming that his function is judicial, the margin of control by the courts extends a little further than mere delineation of jurisdiction.⁴⁸ The judges will see to it that he acts upon evidence and after giving the accused a fair hearing according to the precepts of natural justice. But saving these requirements, the decision of the Secretary upon matters of fact would in all likelihood be treated as final.

⁴⁷ For a rough analogy see *Waldron v. O'Connor*, 65 O. L. R. 407; (1930) 4 D. L. R. 22; 56 C. C. C. 296; (1931) O. R. 608; (1931) 4 D. L. R. 147; 57 C. C. C. 268; (1932) S. C. R. 183.

⁴⁸ *Wilson v. Esquimault and Nanaimo Railway Co.*, I. A. C. 202, *Canadian Bar Review*, Vol. 6, p. 497.

Although the subject has not yet come before the courts, revocations are not uncommon. Immigrants from central Europe can evade the strict laws of military service, if they wish to return home, by becoming Canadians. British consular officers often discover cases where people have incurred cancellation by residing out of His Majesty's dominions for over seven years. Perhaps for an immigration country like Canada an even shorter period might be advisable, especially where the person concerned returns to their native land. There is no reason why such people should, unless their stay is clearly of a temporary character, retain the rights of Canadians for seven years. United States laws raise a presumption of expatriation when a naturalized citizen resides for two years in his country of origin, which he must himself rebut.⁴⁹ When we consider that, prior to 1913, cancellation of naturalization was an almost unknown phenomenon in international law, it assumes a rather severe significance in our system.⁵⁰ The explanation is, of course, that our Naturalization Act was framed and amended during and soon after the Great War. In the words of M. Kiefe:

"D'ailleurs la loi de 1918 est essentiellement une loi de circonstances, une loi de guerre; cela ressort nettement des débats parlementaires, la loi a été votée pour introduire dans le Code de la Nationalité les trois dernières causes de dénaturalization car l'opinion publique réclamait des mesures exceptionnelles de défense contre les naturalisés d'origine ennemie."⁵¹

Hence the stringent easiness with which people may lose their naturalized status. Particularly harsh and contrary to settled common law doctrines is section 10, which provides that the wife and minor children of a person whose certificate has been cancelled shall cease to be British subjects when the Governor so directs, even though they were before British subjects by birth. This, as Van Pittius points out, "is opposed to the fundamental rule that a natural-born British subject cannot be deprived of his nationality by an arbitrary act of the government."⁵² This might be made the basis of an argument that the expression "minor children" does not include those born in British soil; as to the wife's position, subsection (b) of section 10 leaves no doubt. Another sharp edge of the statute is subsection 4 of section 10 which attaches retroactive effect to cancellation for the purposes of the Immigration Act. It is all very well for subsection 4 to recite that the

⁴⁹ 34 *United States Statutes at Large*, p. 1220.

⁵⁰ Sometimes persons returning to their native land wish to abandon their acquired Canadian nationality. But the Department can only come to their relief if the facts of the case bring it under one of the revocation clauses of the Act.

⁵¹ R. Kiefé, *La Nationalité de Personnes dans l'Empire Britannique* (Paris: Rousseau, 1926), p. 77.

⁵² Van Pittius, *op. cit.*, p. 120.

holder of a revoked certificate "shall be regarded as an alien and as a subject of the state to which he belonged at the time the certificate was granted." What, even for the purpose of Canadian law alone, is the position of persons who were stateless before naturalization, or of wives and minor children who have been British subjects since birth? As far as international law is concerned subsection 4 is a mere *brutum fulmen*. Canada cannot tell other states who are and who are not their subjects. Most states to-day deprive their nationals of that status when they become naturalized abroad. But few, if any, allow them to resume their former privilege when their adopted country casts them off. Hence, most of the persons whose certificates are revoked become stateless at once. The asperities which this condition involves for the person concerned are well known; it is undesirable for the government as well, as the Home Office have pointed out, since such a person ". . . does not, in all probability, retain or recover any nationality, and the more undesirable his character the less practicable becomes his expulsion from His Majesty's dominions inasmuch as he will not be a national of any state which is bound to receive him and no state which has a power to reject undesirables will be open to him."⁵³ In the light of these considerations, Mr. Van Pittius goes so far as to suggest that "the whole question of revocation of certificates should be considered in the light of the probable injustice and hardships which follow in its wake—probably revocation is quite inexpedient in practice as it is doubtful whether the person concerned can be deported to his country of origin."⁵⁴

Prior to the repeal in 1914, of the British Naturalization Act of 1870, naturalized subjects from all parts of the empire were subject to an important disability. Paragraph 3 of section 1 of that Act, after reciting that naturalized subjects should enjoy all the rights of those who were British-born, added the words "with this qualification, that he shall not, when within the limits of the foreign state of which he was a subject previously to obtaining his certificate of naturalization, be deemed to be a British subject unless he has ceased to be a subject of that state in pursuance of the laws thereof or in pursuance of a treaty to that effect." This peculiar limitation was, of course, a relic of the rigid old view of the common law that *nemo potest excuere patriam*. Hence England was not prepared to insist that her naturalized subjects possessed their new nationality within the borders of their former fatherland. Such a concession has never been made by the United States;⁵⁵ who have always insisted strenuously upon the right of her naturalized subjects to throw off their old allegiance *in toto*. Nor does the common law recognize any such double nationality in a British

⁵³ Imperial War Conference Papers, 1917, Memorandum by Home Office, App. 1.

⁵⁴ Van Pittius, *op. cit.*, p. 123.

⁵⁵ 15 *United States Statutes at Large*, p. 223. Also Flournoy in *Yale Law Journal*, Vol. 31, pp. 702 and 713.

subject whether he be within or without the realm.⁵⁶ The Inter-Departmental Committee of 1899 suggested that the strange reservation should be omitted from the new Act so that it does not appear there. To-day, it is submitted, there can be no question that persons naturalized in Canada preserve their old allegiance even within the states of which they are ex-members.⁵⁷

Although this paper has been an attempt to delineate an existing situation rather than a critique, certain points should be stressed in conclusion. We have seen that there are at present two types of naturalized Canadians, those whose condition is created by the new imperial scheme and those who became citizens under a now obsolete system of local colonial naturalization. We cannot neglect the latter entirely for their position and that of their descendants depends on the old law, as exemplified in Markwald's case. The present day machinery places full responsibility for the issue of certificates upon the Secretary of State, although he is somewhat assisted in the performance of this purely executive duty by the decisions of the judges upon most of the applications. Canadian nationality once granted is by no means a guarantee of civic and political rights equal to those of all natural-born subjects. In certain respects the status of the naturalized person is clearly inferior to that of the Canadian-born, notably in that it is always subject to possible cancellation by the Governor in Council. This action not only places the person involved in a most precarious position but may lead to "international complications." On the other hand, revocation in the case of persons who return to settle in their native countries seems to be a logical and necessary procedure. In relation to deportation and exclusion under the Immigration Act, the naturalized citizen is not on a parity with those born here, but he is always entitled to the diplomatic protection of the empire throughout the world even in his native country. This is probably the chief of the benefits to be derived from the voluntary acquisition of allegiance to the British Commonwealth of Nations.

⁵⁶ *Rex v. Manning*, 2 Carrington and Kirwan's Reports, p. 887; *Mette v. Mette*, 1 Swabey and Tristram's Reports, p. 416.

⁵⁷ The opinion also of Flournoy, Jr. See *American Journal of International Law*, Vol. 9 (1915), p. 877.

THE RATE INTEREST AND PRICE FLUCTUATIONS

F. A. KNOX, *Chairman*

V. W. BLADEN AND A. F. W. PLUMPTRE.—1. The theory of divergences between “market” and “natural” rates of interest, while long familiar in Europe, has been introduced to that unfortunately large body of economists who do not read German by Mr. Keynes. This paper is concerned with the relationship between these two rates. Throughout the paper we make use, we hope correctly, of the definitions given by Mr. Keynes in his *Treatise on Money*. We are discussing problems that came within the scope of the *Treatise*. Much of what we say is merely the collection in a different sequence, because for a different purpose, of the ideas which it contains.

2. We attempt to answer five questions: I. Is it useful, or even legitimate to discuss a single “rate of interest,” as opposed to a multiplicity of rates or a rate structure? II. Answering the preceding question in the negative, is there only one natural rate structure? III. Is a natural rate structure a “norm” towards which market rate structures may be expected to tend? IV. In so far as the preceding question is answered in the negative, are there any limits to the divergence of market from natural rate structures and, if so, what determines these limits? V. Can the orthodox English and American theories of interest, which deal exclusively but unwittingly with a single natural rate, serve any useful purpose?

I. INTEREST RATE STRUCTURES

3. Our first question is whether it is useful, or even legitimate, to discuss a single “rate of interest”? This question is, of course, raised by the fact that the lending and borrowing which is carried on in any modern community is done at a variety of rates. If we speak of “the” rate of interest we must, therefore, either be taking one actual rate of interest as representative of all the rest, or else we must be assuming that there is a computed average of the rates which may be taken as representative. Neither of these alternatives appears to be justified.

4. Let us consider first whether it is justifiable to speak of interest rates in general, as if it were possible to compute a significant average rate of interest. The problems here involved are analogous to those which arise in the construction and use of index numbers of prices. In so far as interest rates move in the same direction, in the same proportion and at the same time, an index number, or average, is an accurate representation of their movements. The various short term interest rates in a highly developed money market exhibit these characteristics in a considerable degree and thereby justify the use, in their regard,

of the phrase "movements of short term rates of interest." But this phrase ought not to be conceived as including the rates charged by banks for commercial loans (other than rates on negotiable paper) or the rates paid by such banks to depositors elsewhere than in money markets. These rates are notoriously dominated by custom and laggard in their movements. When we turn to the field of long term rates we find even less homogeneity of movement. It has been a paramount feature of industrial fluctuations that interest rates upon the more risky types of securities usually move in precisely the opposite direction to the rates upon gilt-edged investments. In addition to this difficulty, which in itself is sufficient to abolish any logical justification for the use of the phrase "movements of long term rates of interest," there is the further objection that a large amount of long term lending, particularly mortgage lending, is done at rates which custom renders immobile. And lastly, an attempt to compute an index number or average of interest rates upon current borrowing and lending would involve problems of weighting which are theoretically insuperable no matter what statistical devices are introduced to becloud the issue. We refer particularly to the fact that, in general, the type of financing done in boom differs inherently from the type done in slump. In short, the simplification involved in the phrase "movements in long term rates," and *a fortiori* in the phrase "movements in the rate of interest" is unjustified. It is particularly misleading when applied to problems of industrial fluctuations in which it is widely accepted that the divergent movements of different rates play an important part.

5. Most writers upon the subject of the theory of interest have either ignored the problem raised in the preceding paragraph or else have evaded it to their own satisfaction. This has usually been accomplished by taking some rate as the standard rate and then explaining in one way or another the reasons why other rates varied from it. Marshall, for instance, took the rate upon consols and this appears to be the general practice in English economics. This choice he justified on the grounds that an investor could get, at that rate, "a secure income without appreciable trouble or expense on his part."¹ The absence of risk was clearly the important consideration in choosing this as the standard rate. But of course (even granting the permanent willingness and ability of the British government to service its debt—and that without the Bank of England "rigging the market" at times of conversion) an investment in consols is only riskless if the investor never wishes to sell out. The payment for his "waiting" is only riskless if he is willing to "wait" forever. The risk of variation in capital value—the risk of illiquidity—is one which very few investors, corporate or private, can afford to ignore. This risk is present in high degree in speculative securities, in some degree in consols, and in a slight degree even in treasury bills with but a few days to run. It is not present

¹ Alfred Marshall, *Principles of Economics* (eighth edition; London: Macmillan, 1930), pp. 588-9.

in legal tender money which earns no interest and is ultimate liquidity. To all other types of "investment" it attaches in some degree. It varies conspicuously between different securities at different times. And with the growth of financial business in general, and particularly of banks and insurance companies which are forced to pay particular attention to considerations of liquidity, this type of risk is probably becoming increasingly important. We do not wish to imply that all interest can be analysed into payments for one type of risk or another; but only that some risk, either of illiquidity or of failure to pay the contracted income, attaches to every security. Partly on this account, and partly because of the arguments presented in paragraph 4, we believe that the use of a standard rate, which is supposedly representative of "pure" or "net" interest apart from allowance for risk, is unjustified and misleading.²

6. It appears to us preferable to regard the capital market not as a "perfect market" in which one price for "saving" or "capital disposal" prevails, but rather as an imperfect one. In this market there are preferences, both on the part of buyers and of sellers, for certain types of transaction. Some will be interested largely or solely in short term, others in longer term transactions; some lenders will not want to make risky loans, some borrowers can only offer risky securities. And from time to time the preferences of lenders and the credit-worthiness of borrowers will change greatly. There are also fashions in lending as well as in spending. We suggest that it is better not to attempt to dissociate "waiting" from "risk" but to consider the actual rates of interest upon the market. The movements of these rates are, as we have noted, too heterogeneous to permit of generalizations regarding them. Therefore in what follows we discard the term "the

² In view of what we have said it is, perhaps, surprising that the notion of a standard rate, dissociable from risk, is so widely used. It occurs in theoretical economics. See, for example, J. E. Meade, *The Rate of Interest in a Progressive State* (Toronto: Macmillan, 1933), p. 106, "the price of ordinary industrial shares will, as we have seen, be determined by the rate of interest, i.e., the yield on fixed-interest stock, and by the expectation of the market as to the future course of profits"; also J. M. Keynes, *Treatise on Money* (New York: Harcourt Brace, 1930), Vol. I, p. 202, etc. It occurs also in the terminology of the market. See, for example, the *Westminster Bank Review*, March, 1934, pp. 3-4, "Since an element of risk is present in even the very best investment, it is impossible to compute the ruling rate of "net" interest at any given time. In practice, the yield on the funded, irredeemable debt of the British Government is generally accepted as representative of that rate. This custom is not only the most practicable, but reasonably accurate, since although the price of Consols does fluctuate, its fluctuations over tolerably long periods are themselves nothing else but the reflection of changes in the rate of interest." The circularity of the reasoning in this quotation needs no comment.

rate of interest" and substitute for it the more clumsy but more accurate phrase "the interest rate structure."

II. NATURAL AND NEUTRAL RATE STRUCTURES.

7. So far, while we have introduced qualifications of which we shall make use later, we have done no fundamental damage to the theories either of Mr. Keynes, or of previous writers who did not distinguish between market and natural rate structures. Following Mr. Keynes we may make a preliminary definition of the natural rate structure as a structure which makes the aggregate of saving of all types equal to the value of investment. But we must make allowance for an ambiguity in Mr. Keynes' analysis. As defined, the natural rate structure is one at which saving equals the value of investment; but the volume of employment of the factors of production is unspecified. Now both the rate of saving and the rate of investment will be affected by changes in the volume of factors of production employed. Therefore for every assumed volume of employment there will be at least one³ natural rate structure corresponding to it. There is not, therefore, one single natural rate structure, but a series of structures, each applicable to a given volume of employment. We intend, however, to reserve the term "natural rate structure" for that structure which, at "full employment of the factors of production" (whatever that may be) will make saving equal to investment. For a rate structure which merely equalizes saving and investment at any level of employment we make use of the term "neutral rate structure."⁴

8. On the basis of the analysis in part I of this paper we have one further complexity to introduce. We have pointed out that most saving is not general, but specialized with a preference for lending upon certain specific terms. Similarly most types of investment can best be financed by borrowing upon certain specific terms. We must now take into consideration the fact that the types of saving becoming available will depend in part upon the type of investment being undertaken. The supply and demand being mutually interdependent, the price cannot be determined merely by the technique of intersecting demand and supply curves. It is quite conceivable that there is more than one rate

³ See next paragraph.

⁴ In the choice of the term "neutral" we have followed the lead of Mr. Meade, *op. cit.*, Chapter II, p. 113. "A neutral money system is one which simply interprets the decisions of individuals, of companies or of the government without, by its own action or inaction, making the effects of such decisions different from what they would have been in a non-monetary economy" (p. 11). Mr. Meade assumes that all savers desire that their savings should finance new investment (pp. 12-13). Other of Mr. Meade's terms we have not employed because, although they have some advantages over those of Mr. Keynes, they are not likely to be so familiar to economists.

structure which makes saving equal to investment when the factors of production are fully employed; that is, there may be more than one natural rate structure applicable to the conditions of a given community. For instance, if a given market were split into three, and a natural rate structure were found to be 2 per cent for short loans, 4 per cent for long riskless and 6 per cent for long risky loans, it might also be possible that a structure of 2 per cent, $4\frac{1}{2}$ per cent and $5\frac{1}{2}$ per cent would also be a natural rate structure. The reason for this might be that under the latter structure. The volume of relatively risky investment would be increased, and of the riskless decreased, while the recipients of the incomes from risky investments themselves might show a distinct preference in making their savings available to risky investments. The larger the portion of a community which is engaged in gold mining, the greater may be the volume of capital available to prospective gold miners. For the remainder of this paper, however, we shall ignore this complexity and refer to "the natural rate structure" as if the phrase were unambiguous.

III. IS THE NATURAL RATE STRUCTURE A "NORM"?

9. Our next question, is the natural rate structure a norm?, might be reworded to read, Are divergences between the natural rate and market rate structures, and the industrial fluctuations which they reflect, of the "short run" or self-correcting type? To this proposition Mr. Keynes would appear, at times, to assent. At one point he claims that his theory leads him to believe "there is a certain appropriateness (in the term "Credit Cycle" because . . . we have an oscillation about an unchanged position of equilibrium." (Vol. I, p. 261). Again: "Booms and Slumps are simply the expression of the results of an oscillation of the terms of credit about their equilibrium position." (Vol. I, p. 184). And in his concluding remarks (Vol. II, pp. 406-407) he seems to suggest that his theory is merely an advance into the theory of short-run, self-correcting disequilibria.

10. Now the essence of "normative" or "equilibrium economics" is that the phenomena within its purview should have this attribute in common—that directly the actual departs from the normal certain forces are set up which eventually become responsible for turning the direction of the movement of the actual back towards the normal.⁵ The occasional or even the frequent intervention of outside (as opposed to

⁵ We here ignore a difficulty suggested by the argument of paragraph 8; that a divergence of the market rate structure from the natural rate structure may change the natural structure, and that the way in which market rates approach the natural rates may change the natural rates to which they are supposed to be tending. Cf. N. Kaldor, "A Classificatory Note on the Determinateness of Equilibrium," *The Review of Economic Studies*, Vol. I, No. 2 (February, 1934).

self-initiated) forces which turn the "actual" back towards the "normal" does not justify the use of the term or the idea of an equilibrium

11. On these grounds it is difficult to justify wholly Mr. Keynes' use of the concept. Examining his first fundamental equation as his skeleton-explanation of where divergences between the market rate and the natural rate arise and how they affect prices (P), we find no explanation of why divergences between the two rates (or why the attendant movement of prices) should ever correct themselves. The equation is as well adapted to explain the German inflation as it is to explain the "Credit Cycle." In fact better adapted. For in the absence of intervention of factors outside this fundamental equation there is every reason to expect that any movement of the market rate structure away from a neutral or natural rate structure will be cumulative and self-aggravating rather than self-corrective. Thus Mr. Keynes' "natural rate" is certainly not a "normal" or an "equilibrium" rate in Marshall's sense of those words.⁶

12. Divergences between the market and neutral rate structures are mirrored in a movement of prices, P (unless counteracted by changes in the ratio of Earnings to Output). Now it is clear that the vast majority of actual price movements have not run their full course to zero or infinity. Most economists would probably explain this—correctly, in our view—by reference to the stability both of monetary supply and of habits in the use of money, to interference from time to time, by governments and to historical accident. We now turn to consider in some detail what determines these limits to price fluctuations, or to divergences between market and neutral rate structures.⁷

⁶ In view of the associations which the word "equilibrium" has acquired in English economic literature, we do not fully agree with Professor F. A. von Hayek that "the term 'equilibrium rate of interest' . . . seems preferable . . . to the usual expression of 'natural rate' or 'real rate'." *Monetary Theory and the Trade Cycle* (New York: Harcourt Brace, 1932), p. 139.

⁷ To descend to a simile, industrial fluctuations probably should not be regarded as the oscillation about a central point, or line of movement, of a pendulum or a ball on an elastic string; but rather of a self-impelling billiard ball, rushing from side to side of a table with soft, elastic cushions. In this case a line drawn down the centre of the table may represent a mathematical "average" of the position of the ball, but an "average" towards which no "central tendency" is exhibited. It is interesting to speculate why economists have used so freely this concept of "normal" in relation to industrial fluctuations. Partly, no doubt, because they have attempted to introduce the methods of thought and terminology belonging to a previously elaborated equilibrium theory of value. And partly, perhaps, because their statisticians have presented them with misleading pictures of mathematically "smoothed curves" in which the smooth lines lie along the centre, instead of at the temporary extremes, of the plotted fluctuations.

IV. LIMITS TO PRICE FLUCTUATIONS

13. In attempting to discover these limits it is convenient to discriminate between, on the one hand, the transactions made through the Financial Circulation in the passing around of property, or titles to wealth, and in speculation, etc; and, on the other hand, the transactions made through the Industrial Circulation which is used to finance the earnings of the factors of production and the movement of "goods in process." Thus we distinguish between "Industrial prices" which are, or else bear a fairly close relation to, the rates of money incomes and consumable prices, and "Financial prices," whose relationship to consumable prices is more distant and susceptible to wider degrees of speculative influence.

14. Passages in the *Treatise* leave no doubt that Mr. Keynes has the principle of limits in mind in discussing movements of Industrial prices. For example, in analysing the "normal course of a credit cycle" he says (Vol I, p 303): "A point will come, therefore, when the Banking System is no longer able to supply the necessary volume of money consistently with its principles and traditions. It is astonishing, however—what with changes in the Financial Circulation, in the Velocities of Circulation, and in the reserve proportions of the Central Bank—how large a change in the Earnings Bill can be looked after by the Banking System without an apparent breach in its principles and traditions." When no money is forthcoming, either from the Financial Circulation or from direct creation, and when V_1 and V_2 have reached a temporary maximum, then funds will no longer be available for excess costs of investment above current saving and the rise of prices (P) must stop.

15. To this catalogue of the factors affecting the limits to price fluctuations we have nothing to add. But there are two corollaries to be drawn. The first is that while the symbols of Mr. Keynes' first fundamental equation— E , O , R , and particularly I' and S —constitute very useful shorthand for representing the causes of changes in the value of earnings, the value of consumers' goods and therefore of goods in the later stages of production, nevertheless Professor Fisher's symbols, M , V , and T —if redefined to exclude money and goods in the Financial Circulation—may be useful in classifying the limits of change. For instance, if we read Professor Fisher's discussions of velocity as concerning a limiting rather than an initiating factor operating upon industrial prices they at once became more convincing.⁸ The association of new discoveries of gold with rising prices which the quantity theorists have taken to be proof of their theory, may be explained in the following way. The stimulus of profits from exploiting a new discovery (in this case gold) is the initiating factor in the rise of prices.

⁸ *The Purchasing Power of Money* (2nd edition; New York: Macmillan, 1926), Chap. V.

The new supplies of gold subsequently relax the monetary limits which might have checked the investment boom earlier if the discovery had been merely copper.

16. The second corollary is that while the maximum price limit of Industrial Goods is clearly set largely irrespective of the prices of Financial Goods by the economic forces outlined in the quotation from Mr. Keynes in paragraph 14 above, nevertheless there is apparently no similar minimum limit; for theoretically the whole of the minimum volume of money might be absorbed as idle savings deposits in the Financial Circulation. Consumption, production and prices would then reach zero simultaneously. In fact, of course, we have to look for the lower limit either to political forces, e.g. to the minimum subsistence acceptable to the unemployed; or else, in our search for this lower limit to the decline in Industrial prices we may consider the contemporary movements of Financial prices. For if the latter reached a limit to their decline and started to move in the opposite direction, the effect upon the volume of investment or upon current saving might be such as to turn the tide of Industrial prices. Therefore to the consideration of Financial prices we now turn.

17. In the six following paragraphs we are going to ignore the warnings which we set forth in parts I and II of this paper and speak as if the prices of securities moved in unison. This we do partly because it enables us to discuss the problem of Financial prices in the terms made familiar by Mr. Keynes and partly because it will simplify without too greatly distorting some features of the problem.

18. Mr. Keynes' fundamental equations do not give us any clue to the factors determining the prices of Investment Goods. In introducing his second equation he explicitly states: "If we may be allowed to assume the price level of new investment-goods as given, we can obtain a formula as follows for the price-level of output as a whole, . . . $\Pi = E/O + I - S/O$." (Vol. I, p. 137). This equation is, of course, formally correct,⁹ but it is nevertheless misleading.¹⁰ For while the first fundamental equation really does include independently variable

⁹ Granted the change of definition given, in reply to Professor A. H. Hansen's criticism, by Mr. Keynes in the *American Economic Review*, Vol. XXIII, No. 4 (December, 1932), p. 691.

¹⁰ These criticisms were formulated before the article by Mr. B. R. Shenoy, "An Equation for the Price Level of New Investment Goods," *Quarterly Journal of Economics*, Vol. XLVII, No. 1 (November, 1932), p. 138, came to our notice. But the misleading of Mr. Shenoy who hoped, merely by mathematical elimination of P from Π , to reach a meaningful equation for P' , the prices of investment goods, is illustrative of the point. His labours produced exactly what might have been expected, viz. an equation showing that the price of investment goods equalled their cost plus the profit made upon them, with no explanation of whence the profit arose or of its magnitude. But instead of using this to show the faults of Mr. Keynes' Π equation, Mr.

factors (I' and S) which give rise to divergences between prices (P) and the relevant costs of production, the second fundamental equation, although visibly purporting to explain to us the factors determining π , really tells us nothing further. The second equation, insofar as it includes a new variable on each side of the equation (P' within π and Q_2 a function of P' , within I), appears to be circular in its reasoning and meaningless. One wonders whether there is any value in retaining it.

19. It is possible, on the assumption that security prices move together, to construct equations the symbols of which represent, and thus throw into prominence, variables of fundamental importance in Mr. Keynes' analysis, that have nevertheless been excluded from places in his fundamental equations. But before introducing an equation we should state our basic position. In contrast with those who have used the "cash balances" equations, we consider that when one's cash balance appears to be excessive it is much more likely that one will purchase, and thus drive up the prices of, Financial Goods rather than that one will appreciably increase one's current consumption. It is only when the value of one's total property (not merely one's cash) is excessive in relation to one's income that one increases one's current rate of consumption. A very large proportion of the total volume of securities is held either by corporations, or by wealthy individuals whose property will be largely in the form of securities. In both cases the principal variation in their cash balances will be proximately affected by the amount and nature of their security holdings. In our equation we therefore relate the value of savings deposits to the total value of all securities held by individuals and corporations, considering the changes in the relationship between these two quantities when "bullish" or "bearish" psychology prevails. The factors in an equation based upon these principles can be defined as follows:

M_3 = the volume of savings deposits.¹¹

π = the price level of securities.

G = the number of securities in existence, so that πG is their total value.

ψ = the proportion of the value of their security holdings which individuals and corporations desire to keep on hand in absolutely liquid monetary form in excess of variations in current incomings and outgoings; i.e. the community's demand for savings deposits. Thus ψ is an index of the prevalence of bearish psychology.

Shenoy thought, apparently, that his equation had explained the determination of the prices of investment goods! And thus he tried to minimize the importance or direct relevance of the determining factors which Mr. Keynes himself enumerated and discussed.

¹¹ As Mr. S. Eckler has pointed out, we should strictly define M_3 to exclude those savings deposits which, being built up for example by poor people, would never affect the security markets.

Thus our equation becomes

$$M_3 = \psi \pi G \dots\dots\dots (1)$$

$$\text{or } \pi G = \frac{M - (M_1 + M_2)}{\psi} \dots\dots\dots (2)$$

20. These equations admittedly deal with heterogeneous masses and factors which are not open to strict definition or mathematical measurement. Nevertheless we think they may be of some assistance in demonstrating roughly the operation of those forces which control and ultimately limit the value of existing securities. For instance, equation (2), especially, shows how this value is raised if the banking system purchases securities and thereby creates deposits¹² (M) in excess of those being drawn into the Industrial Circulation ($M_1 + M_2$), at a time when bearishness of the public does not increase; and how the value is directly dependent upon this psychological factor which reacts to political and other changes, and which aggravates, for the most part, any movements initiated by monetary factors.

21. Let us now look for limits imposed upon rising security values. Mr. Keynes has already set forth the reason why π cannot rise indefinitely. It is not because of a direct shortage of money (Vol. I, p. 256); for theoretically it might seem possible for ψ to sink to zero. But actually it is because "in the long run the value of securities is entirely derivative from the value of consumption goods." (Vol. I, p. 255). We have seen above (paragraph 14) that as long as the volume of money available for the industrial circulation is limited, rises in Industrial (and consumption) prices must eventually be checked. Thus after a certain point in the development of a boom has been passed more and more people begin to take a bearish position, which will probably be justified. Finally when M is increasing no more rapidly than $M_1 + M_2$, and ψ is growing, then πG must fall. All of which brings us back to the point that the upper limit to the divergence of the natural from the market rate lies in the responsiveness or rigidity of the monetary system.

22. At this stage of the argument it seems relevant to mention that a rising (and, *mutatis mutandis*, a falling) value of securities has not only an indirect effect upon Industrial prices through the possible stimulation of Investment, but may also have a very direct effect through encouraging consumption (i.e. decreasing Saving). As the capital value of their property rises, people, feeling rich, spend more. And thus increased "bullishness" (or "bearishness") may at least temporarily be the chief cause of its own justification. It seems to us likely that this reaction may be far more important on the North American continent than it is in England.

¹² It is, perhaps, preferable to regard the rise of π as the result of the purchasing, rather than the deposit-creating, activity of the banking system. But the two activities are inseparable.

23. As for a check on the downward movement of πG we can see that this will only come when the rate of growth of M_3 (the resultant of the excess of the declining need for money in the Industrial Circulation over the rate of destruction of total deposits) exceeds the growth of bearishness due to increasing industrial depression. The fall in the value of securities will have its effect on Industrial prices and thus justify increasing "bearishness." Whether M_3 will grow fast enough to check this downward movement, whether, in other words, there is a lower limit to the divergence of the market from the neutral rate structure again depends on the character of the monetary system. Where monetary habits are stable and bank reserve ratios a prime consideration, savings deposits will probably become adequate to meet the demands of the "bears." But where, as in the United States in recent years, the rate of destruction of total deposits is very great, the corrective force of "increasing liquidity," due to stability of monetary (especially member bank reserve) habits, may be very small or even non-existent. Thus an "automatic" monetary check to the decline in security and property prices may fail to arise. If a banking system pays much attention to the "needs of trade" or to value of collateral as its basis for the expansion of deposits, this process of destruction of deposits will be particularly severe and the pit more nearly bottomless. When destruction is proceeding under such conditions we must look to Acts of God (or Mr. Roosevelt) to stop the growth of ψ and the contraction of M . Again, it is clear that if a large group of Frenchmen sincerely believed that the pre-war level of gold prices was a "natural" and therefore inevitable and even desirable level, then their bearishness would be a factor absorbing savings deposits and checking a rise in security prices until such a level were attained.

24. We must now drop our assumption that all security prices move in harmony. This would seriously diminish the usefulness of our equation had we used it as explaining π alone rather than πG , the total (as opposed to the average) value of securities. But as it is, it is necessary to extend, rather than to revise, our argument.

25. With the introduction into the argument of different types of securities, the markets for which are separated by preferences, we no longer distinguish merely between the desire to hold money on the one hand and securities on the other. We must regard all security-owners as distributing their holdings between a number of types of asset from highly liquid but non-interest-bearing money on the one hand to risky securities on the other. Thus the equation given above in paragraph 19 gives an over simplified picture. We cannot, for example, speak of the banking system "buying securities"; but must specify the type. And the extent to which such buying will encourage investment will depend upon

- (a) the prevailing elasticity of demand of borrowers for funds in that sub-market.

- (b) the extent to which the movement in those security prices induces a movement in other sub-markets, and the elasticity of borrowing in those markets.

On the other hand, actual money is looked upon, not as unique but as the limiting type of asset when these are ranged in order of liquidity. And from this point of view it will be seen that an increase in the supply of treasury bills or other short-dated securities may, equally with the creation of new money, put financial concerns in a liquid condition and encourage further loans and investments. The existence of "excess reserves" in the American banking system is, of course, a perfect example of the absence of sufficient assets of the type preferred by bankers to allow them to purchase all the non-preferred assets (such as long-term bonds) which their supplies of mere cash reserves would permit.

26. The reintroduction of considerations of an imperfect security market may supply us with another, and more "automatic," limit to a continued deficiency of investment and cumulative depression. If securities were all of one type they might well be expected to fall continuously. But we must consider the interactions of at least two groups which we may call "gilt-edged" and "risky." Now anyone can explain why risky securities fall with the growth of depression. It is not so easy to explain why gilt-edged securities do not do so too. *Prima facie* the deteriorating prospects of the borrowing governments and public utilities should engender a fall—although a far less rapid one than overtakes the risky securities whose relative prospects have become even more black. We think, however, that it may be possible to explain this phenomenon along the following lines.

27. The extent of booms and slumps depends upon the elasticity of the monetary and financial system. This, in turn, may be said to depend chiefly upon (1) the stability of prevailing monetary habits, (2) the possibilities of expansion and contraction of the money supply by the monetary and banking system, and (3) the supply of securities in existence on the security market which contributes the inertia that keeps the market rate structure from adjusting itself immediately to changes in neutral rate structure.¹³ There is no doubt that the elasticity due to banking arrangements and to the supply of securities has been greatly increasing in the past few decades. There is equally little doubt that, when money was largely metallic coin and when the supply of securities was much smaller than at present, the period during which saving, other than hoarding, could continue to go to waste without forcing up the prices of some securities was relatively short. Therefore the expectation of business men, based upon past experience rather than present observations, is that some securities will rise in

¹³ The operation of this inertia is admirably described by Mr. Meade, *op. cit.*, pp. 111-115. He also makes a very pertinent criticism (pp. 110-1 footnote) of Mr. Keynes' treatment of the matter.

price soon after the depression is under way. That the securities which rise in price are of the gilt-edged type needs no explanation. If sufficiently widely held, the belief that gilt-edged bonds should act in a certain way under certain conditions will be a force sufficient to make them justify prevalent financial expectations—and this in the face of clearly discernible economic forces which should logically influence them in another direction.

28. Another explanation of the rise of gilt-edged securities would usually be offered. This is that purchasers of securities are looking for those which will not only be safe but will also yield an income; and relatively to risky securities the expectation of yield upon gilt-edged securities will be increasing rapidly. Therefore purchasers will flock to buy them and force the price up. (We must not allow the stress which this paper has placed on liquidity to blind us to the existence of a margin of preference between liquidity and income.) This line of argument would be convincing were it not for our premise that these securities should be falling, on the basis of the declining credit of their issuers. Under these circumstances we must ask whether it is likely that the purchasers would buy, on a market which was falling, for the sake of the securities' yield. Here again we may be forced to seek an explanation in the past. It probably never occurred to many investors in the nineteenth century to doubt the credit of, let us say, the British government or even big British railways. The idea that their credit was undermined in bad times simply played no part in the security market, and did not exercise the depressing influence which we have attributed to it.¹⁴

29. If the preceding analysis is correct it does not hold out a rosy prospect for the future. We have suggested that there is good reason to believe that the limits between which fluctuations take place are widening, that the checks imposed upon such movements are disappearing with the effacement of nineteenth century experience and faith in existing institutions and with the post-war political instability. The elasticity provided by the existence of masses of securities has clearly increased. So, too, has the elasticity of the structure of banking credit; and it does not appear to be much more than an even chance that central bankers will combat rather than aggravate this elasticity.

¹⁴ Cf. The reason given in the Canadian Order-in-Council (P.C. 2693, October 27, 1931) permitting "over-valuation" of security holdings of chartered banks: "Whereas . . . owing to the existing general depression, but more particularly the recent international monetary developments, quotations have been recorded in the security markets for many high-grade government securities which would not seem to be normal or reasonable quotations . . . or such as might serve as a proper indication of the intrinsic value thereof, having regard to the fact that the security behind these obligations has undergone no fundamental change"

V. THE USE OF THE "NATURAL RATE"

30. We saw in part III of this paper that the divergence of the market from a neutral rate structure, a divergence which is mirrored in a difference between Saving and the value of Investment and usually in a movement of consumption prices, sets up cumulative rather than counteracting forces. Nevertheless, we saw in part IV that, under circumstances in which monetary and banking habits were not upset by war, revolution or political factors, there would be limits to a movement in either direction; and a movement in the opposite direction might be expected to replace it. We noted, however, that as time went on these limits were probably expanding.

31. The degree and period of divergence between the two rate structures will be chiefly limited, to use Wicksell's phrase, by the "elasticity" of the money supply. But elasticity must here be taken to mean far more than mere changes in the quantity. It must include also extremely important changes in the various "circulations" and their velocities.

32. In conclusion we turn to the orthodox theories of capital and interest to see what we have left standing. According to these theories an increase in the rate of saving lowers the market rate of interest sufficiently to produce a proportionate increase in investment. It is clear that investment can only be financed by saving or by monetary expansion. For this reason we agree with the orthodox theory, stated for instance by Mr. Keynes in *The Economic Consequences of the Peace*,¹⁵ that the great expansion of material equipment in the nineteenth century was made possible by the thrift of the Victorians. The question remains, how can market rates in fact move in the right direction when savings increase or diminish, rather than moving in the wrong direction as Mr. Keynes *Treatise* would suggest. We believe that the explanation should run: Increased saving will lower some or all of the rates in the natural or neutral rate structure. Where, or when, there is a low natural rate structure, market rates can continue to fall from a given point for a longer period before the slack allowed by prevailing monetary and banking habits is taken up and the movement is reversed. Contrariwise, the subsequent rise of market rates will probably reach its limits at a lower absolute level than it otherwise would have done. Thus on the average lower market rates will prevail as a result of the lower natural rates. This appears to be the way in which the orthodox English and American discussions of the (natural) rate of interest should be related to the economics of disequilibrium and thus to the problems of the real world.

¹⁵ (New York: Harcourt Brace, 1920), pp. 18-22.

THE CANADIAN TRANSPORTATION PROBLEM

E. W. BEATTY

When your president requested me to read a paper on the transportation situation in Canada, I accepted his invitation with a great deal of pleasure though I knew that in some of its aspects it was a highly controversial question, that it is and has been for years very political in character, and that anyone in my position would be accused, by those who did not share his views, of being prejudiced because of his association and therefore not likely to consider the problem with impartiality.

While it would be very odd and not flattering to anyone who had been for thirty-three years in railway service and almost sixteen as executive of the oldest trans-continental system in this country and one of the most extensive transportation systems in the world, not to have convictions based upon his study of the subject and his own experience, I have endeavored to prepare a paper which would not leave its author open to this criticism, and consequently have used only official or certified figures preceded by an historical reference to the growth of our transportation problem, the accuracy of which is, I think, unassailable. Heretofore all our transportation problems have been settled under political or community pressure. The present situation must, I take it, be dealt with from the standpoint of sound national economics and from no other angle.

The contribution of Canadian railways to Canadian development has been conspicuous; they should be preserved in a form which will enable them to continue that contribution and to be, if it is possible to make them, a potent factor in the restoration of prosperity in this country and in the relief of its taxpayers. This, if accomplished, must be accomplished through a method of operation which while preserving to the country all its essential transportation facilities, will still provide those services in a manner that will add to the prosperity of every citizen of the Dominion by reducing his tax burdens.

Nature designed Canada as a reservoir of many of the things which are essential to mankind's existence under civi-

lized conditions. It can produce much more than its potential population can consume and, therefore, it must live by exports. Geography has been unkind to Canada in the matter of relating it to its profitable markets. No nation can be named which is so vitally concerned in obtaining cheap and efficient internal transportation. The removal of this geographical disability has been the declared purpose of every man who has written his name in our transportation history.

The railway problem of Canada can be comprehended fully only after a study of the background from which it has emerged in our time in a startling and a menacing form. Thirty-four years ago Canada had no railway problem. The total mileage then was 17,384, and the population of the country was 5,300,000. The Grand Trunk, with well-located lines in Ontario, Quebec, and between Port Huron and Chicago, was soundly entrenched, and was carrying a large volume of international and local traffic. Its principal lines were in process of rehabilitation, and its operating methods were brought into conformity with standard practice. The shareholders in Great Britain, having granted a measure of autonomy to the Canadian managers, were beginning to receive the interest returns which they would have enjoyed earlier had they not clung so tenaciously to the costly conviction that a railway on this continent could be successfully administered from Cockspur Street. Although its mileage proportion was, of course, limited, the Grand Trunk participated in the haulage of freight to and from the Canadian west through interchange arrangements at North Bay and at Chicago.

The maritime provinces were served largely by the Intercolonial Railway. It had yielded no return on its original cost and in many years showed an operating loss.¹ It was regarded in the other provinces with half-patronizing tolerance as the price which Canada had obligated itself to pay to induce the eastern provinces to enter Confederation. In making that statement, I am describing a state of mind, not defending it. It was usually administered in a manner satisfactory to the adherents of the party which happened to be in power at

¹ *Report of the Royal Commission to Inquire into Railways and Transportation*, 1917 (Ottawa: King's Printer, 1917), p. LXVIII; also printed as Sessional Paper No. 20g, *Sessional Papers of Canada*, 1917.

Ottawa, but displeasing to the followers of the party which was out of office. They were united, however, in the belief that its identity and its independence should be preserved, and that its policies should be framed by the representative of those who were dependent on its facilities.

The Canadian Pacific, economically built and carefully managed, was in a safe financial position. It had paid dividends regularly from the date of its completion, and was building up the reserves which then and later enabled it to finance the expenditures for modernization of the whole property and for new trackage to provide for the growing necessities of the west. Its astounding success had strengthened the credit of Canada in the money markets of the world, and made it possible to find the capital for much of our industrial development. Such was the situation in 1900. Within three years Canada had entered on a series of railway adventures which shortly developed into a veritable Rake's Progress. The first important step was the purchase by the Province of Manitoba of the lines owned in that province by the Northern Pacific Railway. These lines were immediately leased for a long term of years to the Canadian Northern Railway. The Canadian Northern up to that time had consisted of a few isolated lines of limited earning power which had been built largely on government credit. Fortified by this generous accession of mileage, the organizers of the Canadian Northern entered on a program of expansion. Branch lines were built first in Manitoba, then on an extensive scale in the provinces of Saskatchewan and Alberta, and through lines were constructed later. The method of financing the branch lines had the merit of simplicity. The cost of the lines having been estimated, the government of the province guaranteed the bonds, principal and interest, for the estimated cost. The bonds were then disposed of, which was not a matter of difficulty because of the guarantee. The trunk lines received a direct bonus from the Dominion government, and, when the system expanded, the company made an issue of perpetual debenture stock, and later of convertible income debenture stock, on its own credit. It is not unfair to assume that these issues commended themselves to investors only because the provincial and federal governments were already heavily involved in the enterprise, and because of the outstanding success of the pioneer transcontinental railway, the

Canadian Pacific. It is conceded that the lines in the prairie provinces were built at a low cost, and were located with a good eye to traffic possibilities. The weakness in the system pursued was that it involved retaining at all costs the favor of those who had it in their power to provide guarantees, and this meant adjusting the program to suit political exigencies. This weakness, in the end, brought the enterprise to ruin. Encouraged by bond guarantees and direct financial assistance from governments, the promoters went on to envisage a trans-continental railway, and when they crossed the Rockies and invaded the territory east of Lake Superior, the whole edifice toppled. By 1913 the company was in difficulties; during the war period it had received distress aid from the federal government, and in 1917 the government of Canada, by payment of \$10,000,000 acquired the entire capital stock of the company and took over the property.

It has been stated sometimes that the collapse of the Canadian Northern afforded an example of the evils of private ownership of railways, and that its failure was due to personal greed and overweening ambition. That may be answered by the assertion — easily capable of proof — that the whole enterprise was conducted from the beginning in an atmosphere of political bargaining, that politics were its very breath, and that political considerations were responsible for the two main extensions which brought about the final catastrophe. In the majority report of the Commission which investigated the railway situation in 1917, we find these words:

The Canadian Northern and Grand Trunk Pacific belong to the third period. Though the outward form of these two undertakings is that of a private company, substantially they both rest on the responsibility of the Governments, National and Provincial.²

We come now to a still more dismal chapter of the story. Early in the century the Grand Trunk Railway became desirous of sharing more fully in the rapidly increasing traffic of the Canadian west. The Royal Commission on Railways and Transportation, which conducted an enquiry in 1931-32, stated in its *Report*³ that the company first proposed to reach out to

² *Op. cit.*, p. xx.

³ *Report of the Royal Commission to Inquire into Railways and Transportation in Canada 1931-2* (Ottawa: King's Printer, 1932), p. 79.

the prairies by leasing a line from Chicago to Winnipeg and building thence to the Pacific, but that this proposal was unacceptable to the government. I do not know on what evidence that statement is based, but it is on record that on November 3rd, 1902, the Grand Trunk presented a memorial to the government asking for authority to construct a railway from its northern terminus, at or near North Bay, Ontario, through to the Pacific Coast, the terminus to be at or near Port Simpson with all necessary branches along the route.⁴ In the negotiations which followed, the government first insisted that the line should be extended easterly to Quebec, and later on stipulated that it was to be built to Moncton. An agreement was finally reached whereby the government undertook to build the railway from Moncton to Winnipeg at its own expense, it to be taken over by the Grand Trunk for operation on completion, at a rental, after seven years, of three per cent on the cost of construction. The Grand Trunk, through a subsidiary company, was to build a railway from Winnipeg to Prince Rupert, the government guaranteeing the bonds to a specified amount and reserving the right to designate the standards of construction to be followed. In signing that contract, the directors and officers of the Grand Trunk were censurable in that they failed to protect the interests of their shareholders on three vital points: (a) they did not insist on a limitation as to the cost of the line to be built by the government; (b) they did not insist on a limitation as to the amount they would be required to spend on the construction of the Grand Trunk Pacific, and (c) they did not insist on protection against the possibility that the Canadian Northern, with government assistance, would be extended in various directions to compete with its proposed lines. The cost of the government portion (the National Transcontinental) far exceeded the original estimates; the cost of the Grand Trunk Pacific likewise exceeded the estimates, due, it was alleged, to insistence by the government on unnecessarily high standards of construction and to competition of the Canadian Northern in the labor and material markets; and the Canadian Northern, with government help, blanketed or anticipated a number of the lines built or projected by the Grand Trunk Pacific. The Grand

⁴ *Op. cit.*, 1917, p. xxvii.

Trunk Pacific failed to pay its way; the Grand Trunk, after advancing \$26,000,000 to it, found it impossible to supply further sums to keep it in operation or to take over the National Transcontinental in accordance with the contract. Its credit extinguished by the liability assumed under the contract, the Grand Trunk was unable to raise money for necessary betterment work on the parent system and was compelled to appeal to the government for relief from the liability. Thus, to quote the words of the Royal Commission of 1931-32: "In a little more than ten years the whole railway situation had passed from a position of manageable cost and moderate expansion to one of financial confusion and over-extension."⁵ The policy of attempting to adjust a railway building program to considerations of politics had another failure to its credit.

On June 30th, 1916, Canada had a railway mileage of 40,584, and an estimated population of 7,500,000. From 1900 the railway mileage had increased by 133 per cent, and the population had grown to the extent of less than 42 per cent. Of the mileage in 1916, 11,612 miles were in the hands of two bankrupt companies; 3,556 miles were operated by the Grand Trunk (then unable to properly maintain itself by reason of its obligations to the government), and 3,599 miles were operated by the federal government, including the National Transcontinental mileage of 1,810.

In 1916 the government of Canada, having in the previous eight years advanced \$90,000,000 to the Canadian Northern and the Grand Trunk Pacific to keep them in being⁶ appointed a Royal Commission to investigate the general problem of transportation in Canada, and to report on the reorganization of any of the railway systems or the acquisition thereof by the State. The Commission consisted of Sir Henry Drayton, Chairman of the Board of Railway Commissioners; Mr. W. M. Acworth, a British statistician, and Mr. A. H. Smith, President of the New York Central Railroad. The Commission submitted a majority and a minority report. The majority report, signed by Sir Henry Drayton and Mr. Acworth, after pointing out that the country had too much railway mileage for its needs, re-

⁵ *Ibid.*, 1931-2, p. 82.

⁶ *Ibid.*, 1917, pp. xv and xviii.

commended, in brief, that the government take control of the Grand Trunk, the Grand Trunk Pacific and the Canadian Northern Railways; that a new public authority, a board of trustees, be incorporated as the Dominion Railway Company; that the three railways mentioned be transferred to that body, as well as the Intercolonial and the National Transcontinental. The board was to consist of five members and was to be non-political, permanent and self-perpetuating. It was submitted that railways were not a proper subject for direct parliamentary control, for the reason that under such control the general interest of the whole community tends to be subordinated to the particular local and individual interests. Mr. Smith disagreed with his colleagues. He recommended that the Grand Trunk be relieved of its obligations with respect to the National Transcontinental, but that it be required to take over the Canadian Northern lines east of North Bay and Parry Sound on a rental basis; that the Canadian Northern be required to take over the Grand Trunk Pacific on a rental basis; that the lines between Winnipeg and North Bay (other than the Canadian Pacific) be leased to the Canadian Northern or to the Grand Trunk, or, if necessary, to a third company, on the best terms obtainable.

The government did not agree with either report in its entirety. They did proceed to take over, in turn, the Canadian Northern, the Grand Trunk and the Grand Trunk Pacific, and finally incorporated them, with the Intercolonial and the National Transcontinental, in the Canadian National System. They did not adopt the method of control proposed in the majority report, but placed the railways under the administration of a board of directors appointed by the government, holding office at the pleasure of the government of the day. This in effect meant political control.

By 1922 the consolidation had been completed, and the Canadian National Railway had assumed what is in substance its present form. In its early stages, the policy of the Canadian National was to co-ordinate its railway lines and its activities, to avoid capital expenditures which would add to the enormous financial burden, and to refrain from challenging the position of the Canadian Pacific in fields where that company had pioneered. In 1923, following a change of directorate and of management, that policy was discarded. It

became the object of those in charge to establish a position of primacy at all costs, to duplicate or surpass every facility furnished by the Canadian Pacific and, regardless of the effect on the general credit of the country and in despite of its past services to Canada, to reduce the privately-owned railway to a condition of inferiority. Abundant evidence that this is not an overstatement will be found in the public utterances of those in control of the Canadian National, and in the pages of the report of the Royal Commission.⁷

The board of directors, and parliament itself, failed to protect the federal treasury. On this point the Royal Commission's report is definite and conclusive. It reads as follows:

The Dominion Parliament has voted unstinted financial support to the administrators of the National System. Not only have the requisitions of the Board of Directors been freely met, but the management have from time to time recommended, the Government has approved and Parliament has authorized and directed the construction of additional branch lines and the purchase of more or less bankrupt lines.⁸

During the period when trade was buoyant, with the government revenues soaring, and when the public was light-heartedly engaged in an orgy of speculation, warning voices were raised in many quarters against unlimited spending by the government railways. Little heed was paid, and those who suggested a halt, or even an enquiry, were stigmatized as apostles of gloom or as disloyal to the country, the interests of which they were endeavoring to protect.

When the depression came, it brought with it the inevitable stocktaking. Those who, in perfect good faith, had accepted statements that the government railways were well on the way to a balanced budget had a rude awakening. It became evident that the railway debt of the country could be set down only in figures of astronomical proportions, and that the Canadian Pacific had suffered severely in the defensive battle which it had been compelled to wage.

In 1931, I had a conference with the chief executive officer of the Canadian National, and at my suggestion he proposed to a committee of parliament that a Royal Commission should be appointed to investigate the transportation situation in

⁷ *Op. cit.*, 1931-2.

⁸ *Ibid.*, par. 24.

Canada. The proposal was approved. In due course the Royal Commission was appointed. It investigated, deliberated and submitted a report. It is with the findings of that Commission that we will now deal.

It found that the cash outlay of the Dominion government and the guarantee of securities for the railways now comprising the Canadian National System had, up to December 31st, 1931, amounted to \$2,487,918,406;⁹ but the amount is subject to addition, as, in paragraph 85, the total capital liability of the system is placed at \$2,669,926,371. As the first main track or road mileage of the Canadian National is 23,880, the total capital (debt) liability was, therefore, \$111,806 per mile. As a comparison, the Canadian Pacific had an interest bearing debt outstanding to the amount of \$26,671 per mile, and if its capital stocks are included, the total amount outstanding is \$54,638 per mile. It would appear from information contained in the reports of the Canadian National for the years 1932 and 1933 that the amount grew from \$2,669,926,371 to \$2,895,799,134 in those two years.

It has been argued, and the contention is now being revived, that as the debt total I have given includes an immense irrecoverable loss, the amount of debt should be written down to a sum sufficient only to cover the actual railway securities now in the hands of the public. This is represented as being merely a bit of bookkeeping, and it is claimed that the effect would be to set an amount on which the managers of the property could be reasonably expected to earn a return. It would be a distinctly dishonest form of bookkeeping. The sum owing to the government is included in the public debt, and a ledger entry would not relieve the burden of the taxpayer to the extent of a single cent. It would give a completely distorted picture, and would tend to lull the public into that sense of security and well-being which has been the cause of so many of our railway misfortunes. Examples cited of private business companies going through a process of reorganization and writing-down have no point. The Dominion government cannot go through the Bankruptcy Court, or compromise on the principal sum due to its creditors without permanent destruction of the national credit.

⁹ *Op. cit.*, 1931-2, par. 36.

It will be interesting to see how the Canadian National debt has grown to such magnitude. The Royal Commission found¹⁰ that the capital expenditures during the nine years under review totalled \$456,345,456 (no part of which was earned), which is at the average rate of \$50,705,050 per annum. These expenditures showed a tendency to increase just prior to the depression, as it is significant that in the year 1929-30, the total capital expenditures authorized by parliament were \$144,949,709.¹¹ The total sum authorized for the railway in that year, including deficits and interest payments, was \$250,507,881, which sum exceeded the total cost of the National Transcontinental Railway and came within two million dollars of equalling the cost of the Grand Trunk Pacific. Interest at five per cent on the capital expenditures made in the nine years meant a permanent addition of \$22,817,272 to the annual interest bill. During the same period the losses of the National System were \$456,063,195.¹² The net income of the Canadian Pacific, after payment of interest, amounted to \$312,879,978 for the nine years.¹³

On the subject of capital expenditures, the following remarks made by the Commission are pertinent:

Of direct political interference by ministers and members of Parliament in the detail operations of the railway, we were assured by the officials there was little or none. It was in the larger sphere of policy that political considerations led to unwise and unnecessary capital expenditures, the result of which was to create an atmosphere in which the ordinary principles of commercial operation of the railway were lost sight of.

When considering the scale upon which branch line extensions and acquisitions, as well as hotel expenditures were made, and railway and steamship services duplicated, it is impossible to avoid the conclusion that the Board of Directors and the management of the National Railways were amenable to political influence and pressure, which it would have been in the public interest to have withstood.¹⁴

During the course of the inquiry, a comparison was made of the construction costs, and of the operating methods and

¹⁰ *Ibid.*, par. 49.

¹¹ *Ibid.*, par. 150.

¹² *Ibid.*, par. 43.

¹³ *Ibid.*, par. 41.

¹⁴ *Ibid.*, pars. 146 and 154.

results on the two Canadian systems. It was found that branch lines built by the Canadian National cost an average of \$15,867 per mile more than branch lines constructed by the Canadian Pacific. On the mileage built by the Canadian National in the period the excess cost was \$30,073,201.¹⁵ Unit operating and maintenance costs were found to be considerably lower on the Canadian Pacific, which fact is reflected in a lower operating ratio in every year of the period under review.¹⁶ From the figures set out in the report it has been calculated that if during the time in question the Canadian National had been able to reach the same operating ratio as its rival, an additional sum of \$230,297,457 would have been available to apply on the deficits.

The most impressive commentary on the administration of the government-owned system is contained in the words of the Commissioners:

Running through its administrative practices, however, has been the red thread of extravagance. The disciplinary check upon undue expenditure, inherent in private corporations because of their limited financial resources, has not been in evidence. Requisitions of the management have been endorsed by governments, and successive parliaments have voted money freely, if not lavishly.

Within the railway organization there has been freedom in expenditure and encouragement in plans for expansion and extension of services which were inconsistent with prudent administrative practice. The administration failed to realize that this country, with the greatest railway mileage in the world in relation to population, could not afford further capital and maintenance expenditures for unwarranted branch lines, for de luxe services, for unrequired hotels, for the building of ships in competitive service to be shortly abandoned; and, generally, for costly adventures in competitive railways out of proportion to the needs of the country.¹⁷

The Canadian Pacific suffered more than any other individual or institution from the course followed by the Canadian National during nine years. As the largest single taxpayer in the country, it had to help to pay the bills for a campaign organized for its own discomfiture. It saw territory, which it had nursed and developed, invaded by a competitor with all the resources of the nation behind it. It had to stand by

¹⁵ *Op. cit.*, 1931-2, par. 53.

¹⁶ *Ibid.*, par. 138.

¹⁷ *Ibid.*, 1931-2, pars. 33-4.

while nationwide appeals were made to its patrons and friends to forsake it on patriotic and tax-saving grounds. It saw novel and extraordinary publicity methods used to divert traffic from it. In the interests of its shareholders, it had to strive to maintain its position — and it did. In a conflict of that kind both combatants are bound to be damaged, and this trial of arms was no exception to the rule. The Canadian Pacific was compelled to anticipate expenditures by building branch lines and providing facilities in advance of necessities, and to extend services and buy equipment which traffic returns did not justify. It has been censured for meeting competition; it would have perished had it not done so. The Commission, although withholding approval from some of its acts and policies, recognized its predicament. In paragraphs 25 and 26 of the report, the Commission said:

As a result, the Canadian Pacific Railway Company, the largest taxpayer in Canada, has been subjected to the competition of publicly-owned and operated railway lines, supported by the financial resources of the country. They had honorably discharged their original contractual obligations with Parliament, and the company's lines had played a great part in binding together the western and eastern provinces of the Dominion. By common consent, the company's administrators had brought faith, courage and invincible energy to the task of building its lines through the undeveloped west. The company's achievement commanded the admiration of both railway operators and the public, and has been a material factor in causing Canada to be favorably known upon three continents. Their operations brought profit to shareholders, and the enterprise became a national asset of acknowledged value and importance to the Dominion.

Confronted with the unrestrained competition of the publicly-owned railway, the Canadian Pacific claimed that to protect their business it was necessary that they should meet their competitors in the construction of branch lines in the prairie sections, and generally in the character of service and equipment incident to the activity of their aggressive rival.¹⁸

After a survey of the whole field, the Commission came to the conclusion that conditions, as they were, could not continue if the nation was to remain solvent, and cast about for a remedy. Although it was stated that some members of the Commission would have preferred a solution which would have taken the government out of the railway business, plans for amalgamation, or unification for administrative purposes only, were rejected on grounds which seem to me to have been

¹⁸ *Ibid.*, pars. 25-6.

insufficient. A change in the form of administration of the Canadian National, and the imposition of a statutory duty on both railways to pursue measures of co-operation, were recommended. These recommendations were accepted in the main by parliament, and the necessary legislation was passed.

The Canadian National System is now under the general control of three trustees appointed for terms of five years, four years and three years, respectively. It is provided in the Act that no trustee shall be removed from office nor have his salary reduced during the term for which he is appointed, unless for assigned cause and on address of the Senate and House of Commons. This gives reasonable and proper security of office, but there is no assurance that, in future, appointments may not be made on the same grounds which governed the selection of former directors who failed so signally to protect the public interest.

The duty imposed on the two companies by the Act was to consider and put into effect any measures of co-operation which could be adopted without sacrifice of the vital interests of either. Investigation and negotiations have been pursued in an earnest effort to effect the greatest possible savings, but it is becoming more and more apparent that the field of accomplishment is strictly limited. Competition and co-operation are, in the large sense, irreconcilable, and in many cases examined it is difficult to strike a balance which is fair to both companies. Up to the present, the measures which have been put into effect involve an estimated annual joint saving of approximately a million and a quarter dollars. A number of others are under consideration, the savings from which cannot yet be estimated. The company with which I am associated desires to give the fullest effect to the policy enjoined. There are two reasons why such action on our part might be expected. Firstly, the Canadian Pacific is anxious to save money, and, if there is money to be saved, we will co-operate as far as we wisely may. Secondly, at the best, we cannot anticipate that the results will bring any substantial relief to our shareholders or the taxpayer who must pay the bills of the Canadian National, and when the insufficiency of co-operation is clearly established, we do not propose to leave the Canadian Pacific open to the charge that, by its attitude, it did anything to wreck the plan.

The railway structure of Canada is unsound, and with the debt of the government system already of monumental proportions and pyramiding as it is year by year, more sweeping measures are necessary. With the experience which we had in the good years previous to 1929, it is useless to suggest that a return to normal conditions will solve the problem for us. The greatest annual revenue which the Canadian National ever enjoyed was \$204,591,268, in 1928, from which it saved \$44,449,780 for interest. That was only 33.3 per cent of the amount necessary to pay interest at 5 per cent on the total debt as at the end of 1931.

From these figures we can have some conception of the traffic required to provide sufficient net revenue to pay interest on the whole of the debt. It is useless to expect that such traffic will materialize within a measurable period of time. There must be a drastic reduction of railway overhead if we are to come within sight of balancing the railway budget.

One feature of the situation which is often overlooked is that if the Canadian Pacific was earning sufficient to pay reasonable dividends to its stockholders, and if the Canadian National was earning sufficient to pay interest, there would still be a recurring economic loss of many millions in the effort to maintain duplicate facilities and a larger plant than is necessary to handle the traffic of the country. Wisdom would seem to insist that all forms of preventable waste should be eliminated in a young country such as Canada, the speed and extent of the development of which bears a direct relation to the weight of the burden on its taxpaying citizens.

When I appeared before the Royal Commission, I suggested that the solution which would best serve the interest of the taxpayer and of the railway security holder would be unification of the two railway systems for purposes of administration only. I proposed that the management should be in private hands, and in the light of our experience of the two forms of administration during the past decade, few would question the wisdom of that provision. As the result of an exhaustive analysis of the accounts by our officers, I have stated that under the form of unification proposed, there would be a saving of seventy-five million dollars in a year of normal traffic, which amount would be increased as the trade of the

country expanded in future years. It was the intention that these savings would be divided between the owners of the two properties, on a basis to be negotiated. Some people have interpreted the proposal as implying that the assets of the Canadian National would be turned over to the Canadian Pacific leaving the government with the liabilities. Nothing of that nature was in mind. The purpose of unification would be to put an end to the waste of competition, to provide the owners of the Canadian National with more money to satisfy their obligations, and to protect the owners of the Canadian Pacific from a recurrence of the conditions which prevailed during the nine years previous to the depression. It is the only practicable plan yet proposed which offers the taxpayer the prospect of relief from the ever-growing mountain of railway debt.

The Royal Commission declined to recommend the plan for three reasons: (a) that it would result in the establishment of a monopoly; (b) with an increase in population, necessitating additional mileage, the management of so great a system might become unwieldy; (c) a policy adopted under the stress of difficult circumstances might not be best fitted to a new set of conditions difficult to forecast.

The prejudice against monopoly is founded on unfortunate past experience in railway and other fields, but in this case it loses its force because railways no longer have a monopoly of transportation. Their rates and services are disciplined, or, at any rate, powerfully influenced, by competition from waterways and road vehicles, and will in the future, in all probability, be further affected by air services. Furthermore, the public interest can be fully protected by public control through the Board of Railway Commissioners and the government.

The danger that the system might become too vast and unwieldy for centralized management is not a very pressing one. The Canadian Pacific and other organizations of similar size and character have always found it possible to provide for growth in mileage and traffic by intelligent decentralization, and by proper delegation of authority to local representatives. There is no indication of a limit beyond which this policy cannot be successfully applied. In any event there must

always be an ultimate authority to which major questions are referred, and success or failure depends on the wisdom used in the selection of that authority. It may be of interest to observe that the Commission, in proposing the organization of an arbitral tribunal, desired to entrust to the chairman of that tribunal power over the railway properties of the country more arbitrary than, and as comprehensive as, those which would be possessed by the chief executive of a unified railway system.

In arguing that the future should not be mortgaged, and a final decision taken now, the Commissioners are minimizing the extreme urgency of the problem, which in other portions of their report they went to pains to emphasize. Instead of turning their eyes toward a nebulous future, and shrinking in anticipation of its rebuke, they might have reflected on the main lesson learned from their inquiry, which was that a privately-owned railway and a publicly-owned railway could not operate in competition side by side without serious injury to both. I would not fear the verdict of the future on an arrangement which promised immediate and ever-increasing relief to a generation which is hard put to it to find means to carry on the private and public business of the country.

Another objection advanced to unification is that the savings could be effected only by a serious displacement of labor, thus adding to our unemployment problems. The answer is that if the necessary changes are made gradually, wisely and considerately, as they would be, it would be found that the normal turnover of labor would take up the slack, and that under the unified system employees would find that regularity and security of employment which, under present conditions, is denied to them.

I have left little time to discuss other forms of transportation, although they present features well worthy of discussion. Up to the present time, Canada has made capital expenditures on canals, principally on the St. Lawrence and between the Great Lakes, to the sum of \$247,917,853. Another great project is in the offing. It has, in addition, spent large amounts annually on maintenance and operation. It would be foolish to deny that these waterways have played an important part in the development of Canadian settlement,

industry and trade. It may be questioned, however, if the taxpayer will forever continue to favor the free use of all these facilities when he turns to contemplate his immense investment in railways, to which they offer an alternative form of transportation. As a result of unregulated competition on the waterways, steamship owners during the past few years have suffered heavy losses, and the lack of stability in the rate structure has brought about further damage to the rail lines.

Highway competition, through gas-driven vehicles, is a serious matter to the railways of Canada, as it is to the railways of all other civilized countries. These vehicles, no doubt, have their place in the economy of things, but it is most unjust that they should have the free use of facilities provided at public expense, without proper regulation of tolls, service and operating methods. The unfairness of this form of competition is universally recognized and measures have been taken in several countries, notably in Great Britain, to control it, and to restrict motor vehicles to their proper field. In Canada there is a difficulty in dealing with the problem because of divided jurisdiction, but it is to be hoped that the provinces will agree on uniform regulations which will remove the essential injustice in the present situation.

Air transportation is as yet in its infancy in Canada. The existing aviation companies have done good work in assisting exploration and mining development in the remote northern territories, and there is still ample scope for such activities. Up to the present their services have been supplementary to those of the railways rather than in competition with them, but when operating costs and flying hazards can be reduced, they may become competitors to be reckoned with.

One of the lessons learned from the depression is that throughout the world, and on this continent particularly, we have gone ahead building up new forms of transportation, and extending old forms, without stopping to consider their relation to each other, or the relation of each to the whole economic structure. As a result, we have acquired an overhead of staggering dimensions. There may be some truth in the old saying that competition is the life of trade, but, carried to extremes, competition, by placing too great a burden on trade,

may become its assassin. Looking into the future, a rational treatment of the whole situation would be to assign, to each form of transportation, the field to which it is properly adapted, and to place the regulation of services and of rates of carriage under the control of one body, which, in the case of Canada, would naturally be the Board of Railway Commissioners. I have noted that the Federal Co-ordinator of Transportation in the United States has made practically the same suggestion in order to remedy the condition of confusion prevailing in that country.

Before I conclude this somewhat lengthy paper, you are entitled to a review of the points which I have endeavored to establish on the strength of the evidence laid before you, and to have my comments on certain criticisms which have been directed at my main proposal.

The railway debt of Canada at the end of 1933 incurred for the Canadian National Railways, was \$2,895,799,134, and it is increasing daily. It has reached intolerable dimensions, and must not only be controlled but reduced. It constitutes the greatest obstacle to the refunding of our national, provincial and municipal obligations, which refunding is so necessary if we are to place our financial house in order, and keep taxation within endurable limits.

It is not a phantom debt which can be disposed of by book-keeping entries, but an undischarged mortgage on the industry and the resources of the country. The business property which we have to show for the expenditure is not self-sustaining. The proposal to write off a proportion of the debt has the support of certain publicists whose record of counsel on railway problems, up to the present, consists of the following:

1. Unrelenting opposition to the construction of the Canadian Pacific Railway;
2. Enthusiastic support of the construction of the G.T.P., and Transcontinental Railways.
3. Equally enthusiastic support of the Canadian Northern enterprise;
4. Support of the acquisition of all major railways, save that of the Canadian Pacific, by the government;

5. Support of the policy of unrestrained competition offered by the Government Railways to its competitor during the last ten years;

6. The maintenance of the duplication, and, in places, triplication of facilities we now enjoy whether or not bankruptcy is just around the corner.

They now propose to add (7) support of an endeavor to wipe out, by book entries, inescapable loss resulting from policies previously advocated by them, and to be parties to a calculated deception of the Canadian taxpayer as to the extent of the yearly contribution he must make to meet railway losses.

The policy of compulsory co-operation, although it is being given a fair trial, offers little promise of substantial relief. Founded on expediency — not on reason and experience — it does not touch the heart of the problem. I make that statement deliberately and with confidence, because no man of any experience in railway operation has had the temerity to attempt to indicate that the possible economies from co-operation could conceivably be more than a small part of those to be reached through unification, according to the estimates compiled by experienced and competent railway operators.

The only rational plan yet submitted — which meets the situation by assuring more net operating revenue to apply on the obligations of the Canadian National, and to provide a reasonable return to the owners of the Canadian Pacific — is that of unification for administrative purposes, the administration to be free of political control with all its costly implications. One critic of the plan dismisses the estimated economies under the proposed scheme as illusory. He says that the field for saving has been occupied by the economies made by the individual railway companies during the past few years. They are not of the same character or even related to the permanent savings which could be effected by the economic use of existing facilities, and by the abandonment throughout the country of duplicate and triplicate services and trackage. Estimates of those savings were made at various times by the late Lord Shaughnessy, by the late Sir Henry Thornton, by Mr. Fairweather, Economist of the Canadian National Railway, and by the present officers of the Canadian Pacific. These

submissions can be regarded with respect as the fruits of deep study, conducted by men of experience. All of their estimates, though made at different times, are very similar in result. The estimate presented by the Canadian Pacific to the Royal Commission was examined and analyzed by independent railway economists of standing and repute in the United States and was pronounced unassailable.

With a soundly administered unified system, Canada would be able to anticipate, within a reasonable period of time, a balanced railway budget, and would be able to finance any justifiable extensions which expanding settlement and development might in future demand.

I have tried in this paper to impress on you the immensity of our railway problem, and to convince you that a reasonable solution is possible, and that a plan is before you if you will accept it. I urge on you to give the whole matter earnest thought and study. I have lived with it for over fifteen years. I have tried to view it always from a national standpoint, proud of the fact that throughout its existence the Canadian Pacific has proven itself to be a good citizen of Canada. It repaid, with interest, the help which it received from Canada during its early struggles. It has been ready at all times to make its full contribution to the upbuilding of the nation, and that is still the attitude of those who guide its destinies. The government railway burden threatens the solvency of the country. That is the statement of those now responsible for its government. The problem should be settled on right lines, and should be settled now. A little delay may not be fatal, but it will be very dangerous and cruelly expensive.

THE TRANSPORTATION PROBLEM—DISCUSSION

J. L. McDougall.—Mr. Chairman, this Association is indeed honored in having one of its most prominent members address it upon a problem of such urgent present importance and of which his knowledge is so great. Canada came into existence with the development of transportation and anything which promises to reduce its cost or improve its efficiency is of crucial importance to us.

To Mr. Beatty's historical outline I have only one point to add: his statement that "thirty-four years ago Canada had no railway problem"¹ is one which is true to a limited degree and by chance only. For the past century at least Canada has had just as big a transportation problem as she could persuade the foreign bondholder to finance. In 1834 Upper Canada began the building of the Cornwall Canal to a scale which was bound to be useless until Lower Canada could be persuaded to enlarge the canals below Lake St. Francis. The union of the two provinces in 1841 was a means of saving her from the insolvency which threatened to follow this rashness. From that date to the present there has been only one major transportation work carried to a conclusion in Canada without state aid, namely the Great Western Railway, which was built from Niagara Falls to Windsor as a link in an American through line.

So long as Canada is composed of diverse geographic regions we may expect that the problem of transportation, while changing in its nature, will be permanent. The great perennial problem before this country is to unify these diverse economic regions without generating so much individual and regional graft that it is no longer worth the doing.

To come down now to questions of detail. It is obviously impossible to comment on all the points raised by Mr. Beatty in his paper which was a masterpiece of compression, but there are certain ones which I would like to discuss very briefly.

Firstly, it seems to me that Mr. Beatty has made a criticism which would have greater weight if it were more temperately stated when he says of the Canadian National:

"It became the object of those in charge to establish a position of primacy at all costs, to duplicate or surpass every facility furnished by the Canadian Pacific and, regardless of the effect on the general credit of the country and in despite of its past services to Canada, to reduce the privately-owned railway to a condition of inferiority."²

The Canadian National lines at 1921 were not a railway system. They were a rather badly assorted "grab-bag." They were by no means wholly unified in 1923. Furthermore, there were a great many points

¹ Supra, p. 109.

² Supra, pp. 114-5.

at which new capital investment could be made to yield anything between 10 and 30 per cent.³ Capital expenditures of these two types were right and proper, should have been made, and would have been made if an intelligently directed private organization had been in charge. I grant freely that there was a residuum of expenditures whose justification was doubtful at the time and now seems wholly impossible. But what is in question is a fraction only, not the bulk of capital expenditures after 1923.

Secondly, I cannot agree with Mr. Beatty that a recasting of the capital liabilities of the Canadian National would be a "distinctly dishonest form of bookkeeping."⁴ I share with him a fear of the consequences if such a scaling down is not done wisely. I am willing to appoint a day in which we shall as a nation walk the sawdust trail yearly in penitence for our past transgressions. But I am not willing to allow the results of our past unwisdom to drive us into future stupidities. A very important part of the present Canadian National lines were not built with the idea of earning revenue. They were built as national works, e.g., the Intercolonial Railway, or to satisfy sectional political pressures, e.g., the National Transcontinental line. Certain very heavy expenditures, notably the deep rock cut on the approach to Halifax harbor can only be explained as the results of unbelievable stupidity or of a perfectly straightforward attempt to bribe a constituency. If this country is to retain this system it should charge the executives responsible for its management with a debt which bears a proportion to its normal earning power as great as the full charges and dividends on the common stock of the Canadian Pacific Railway bears to its earning power. Anything more would be unwise; anything less would be grossly unfair to the latter.

Thirdly, I come to one point in Mr. Beatty's paper which I wholeheartedly regret, namely, his comparison of operating ratios:

"Unit operating and maintenance costs were found to be considerably lower on the Canadian Pacific, which fact is reflected in a lower operating ratio in every year of the period under review [paragraph 138]. From the figures set out in the report it has been calculated that if during the time in question the Canadian National had been able to reach the same operating ratio as its rival, an additional sum of \$240,297,457 would have been available to apply on the deficit."⁵

³ As, for example, in the improvement in its water supply on the prairies. See "How the C.N.R. Developed a Water Supply in Western Canada," *The Railway Age* (New York: Simmons-Boardman), Vol. 83 (December 17, 1927), p. 1217 ff. Upon the same topic see the reports of the Committee on Water Service of the American Railway Engineering Association, also in *The Railway Age*, Vol. 78 (March 11, 1925), pp. 631-3, and Vol. 82 (March 10, 1927), pp. 804-6.

⁴ *Supra*, p. 116.

⁵ *Supra*, p. 118.

That is a statement which while formally true is practically meaningless. It would be highly regrettable if in its present form it should mislead those who do not understand the limitations which surround such a comparison. I am at a loss to understand how it can have been included unless as a result of a too assiduous and much too credulous reading of the Duff Commission Report which falls into the same error.⁶ Nothing could be farther from the truth. The operating ratio may be an index of financial profitability, but not of operating efficiency. Comparison between two different systems may fairly be made only when the conditions under which they operate are identical. When the Duff Commission reported I checked back to see whether I could find any support for the position which they assumed and in which Mr. Beatty has followed them. I was completely unsuccessful. Quotations are here given from three of the sources referred to. Footnote references to certain others are also given.

"As the ratio of expenses to receipts may be made less either by the receipts being larger or the expenses being smaller, the fact that the ratio is low or high is no real test of economy in operation, nor of the value of the property. . .

"Wherever several lines are so situated that their business is largely competitive, and must be handled at the same gross price, but one or more of them has better grades, or a shorter line, or more traffic, or other special advantages, one line will permanently show a lower percentage of expense than the others, which will have no meaning as an indication of real excellence of management."⁷

"While the operating ratio may be used in comparing the economy of management and operation of two or more roads, it must be used with discrimination. As a basis of comparison, without reference to the various conditions and elements affecting the costs of operation, it is absolutely useless and is almost certain to be misleading."⁸

"This tendency of unit cost to vary inversely with the volume of traffic is further illustrated by the fluctuations in the operating ratio during recent years. In the table on page 81, operating ratio and ton mileage on Class I roads for the first eight months of the year are given for the period from 1927 to 1932. It will be noted that every increase

⁶ "The operating ratio of a railway (being the proportion of operating expenses to operating revenues) is generally regarded as indicative of the efficiency of operation and management of an enterprise." *Report of the Royal Commission to Inquire into Railways and Transportation in Canada 1931-2* (Ottawa: The King's Printer, 1932), p. 49, par. 137.

⁷ A. M. Wellington, *Economic Theory of Railway Location* (New York: John Wiley & Sons, 1914), p. 109.

⁸ W. T. Jackman, *Economics of Transportation* (Toronto: University of Toronto Press, 1926), p. 70.

Year	Billions of Ton Miles	Operating Ratio (Per Cent)
1927	314	75.48
1928	306	74.60
1929	325	72.02
1930	285	75.62
1931	234	77.40
1932	167	79.51

in volume of traffic was accompanied by a betterment in the ratio, and every fall by a rise in the ratio.”⁹

It may be of interest to note that in the years 1923-30 the traffic density of the two systems was markedly different as is shown by the following table:

TABLE I
REVENUE TON MILES PER MILE OF LINE*
(in thousands of miles)

Year	C.N.R.*	C.P.R.	Ratio of C.N. to C.P.
1923	850	1088	78.2
1924	774	931	83.2
1925	821	955	82.5
1926	873	999	87.4
1927	896	1031	86.8
1928	1072	1264	84.8
1929	886	1000	88.6
1930	743	809	91.7

* A. D. Wade, *Earnings and Physical Operation of the Canadian National Railways* (Kingston: 1933), p. 55. A thesis submitted in the Courses in Commerce of Queen's University, April, 1933.

Differences about the past are fruitless unless they give light upon the future. To that I now turn. I take it as a cardinal fact that the amalgamation which Mr. Beatty desires is not politically possible. The old fears of a C.P.R. monopoly which once moved the west are dormant

⁹ Harold G. Moulton and Associates, *The American Transportation Problem* (Washington: The Brookings Institution, 1933), pp. 79 and 81. See also, Joseph L. White, *Analysis of Railroad Operations* (New York: Simmons-Boardman Publishing Co., 1925), pp. 52-6; Sidney L. Miller, *Railway Transportation* (New York: A. W. Shaw Co., 1924), pp. 513-15; C. E. R. Sherrington, *Economics of Rail Transport in Great Britain* (London: Edward Arnold & Co., 1928), Vol. II, p. 48 ff; W. V. Wood and Sir Josiah Stamp, *Railways* (Home University Library; London: Thornton, Butterworth, Ltd., 1928), pp. 120-22.

only, not extinguished. If amalgamation comes, therefore, it would come as an extension of government ownership not an abandonment of it. Furthermore, even if it were politically feasible is it desirable? So long as there are sectional interests which are going to be pressed to the uttermost regardless of the general good is it wise to entertain the idea? So long as there are two railways to divide the shock and to act as correctives on each other it is much easier to hold these forces in check. Secondly, there is the very real problem of keeping the executive corps of such an organization intellectually alive without the spur of competition and of keeping before the personnel the idea of loyalty to the system and not to some part only of it. It is not a question that can be answered by pointing to the Board of Railway Commissioners. Regulation is essentially repressive in spirit. It cannot supply that spark of initiative which is present in organizations vitalized by a desire to anticipate the needs of the communities they serve. Thirdly, amalgamation, no matter how accomplished, would have to be final if it was to accomplish any worth while savings.¹⁰ Once adopted, the surplus facilities would be sold or dismantled.

If amalgamation is, therefore, to be dismissed altogether there remains an alternative course which has certain very real attractions. If it were possible to find a private organization capable of making a large enough investment in the Canadian National to force it to act responsibly it might be well to turn the property over to it. But since such an organization is an impossibility until the international capital markets reopen, and a very doubtful probability even then, this idea might as well be filed for future reference. It need not be discussed now.

There remains, then, only the question of how the public and private organizations may be made to compete fairly with each other. It seems to me that the heart of the problem lies in the capital needs of the Canadian National. It is quite clear that this system should not be perpetually attached to the Dominion treasury drawing funds from it directly or by guarantees. It is equally clear that it must itself grow if it is to serve a growing community. Mr. Beatty has himself recognized the essence of the problem in dealing with the case of the Grand Trunk:

"Its credit extinguished by the liability assumed under the contract, the Grand Trunk was unable to raise money for necessary betterment work on the parent system and was compelled to appeal to the Government for relief from the liability."¹¹

¹⁰ It is, of course, to be noted that the \$75,000,000 savings on a normal year's traffic was a figure to be attained after five years of effort. It does not represent what can be done at present levels of traffic or in a short space of time on any conceivable volume of traffic.

¹¹ See *supra*, p. 113.

It can be brought most nearly to a solution by writing down the existing debt in the fashion described above and then forcing the Canadian National to finance on its own responsibility. The period through which the Canadian National has just passed was one of very heavy investment in which the property was to a substantial degree rebuilt. The major changes are made; what is called for now is relatively minor expenditures from year to year to preserve the advantages which are now enjoyed. The Canadian Pacific passed through a similar growth period in the years 1900-13. The putting of such a solution into effect must, of course, wait upon recovery from the current depression. But the fact that current new capital needs are low makes it easier to wait and will ease the strain of transition to the new state of self-support if such an attempt is made.

H. A. INNIS.—The two general suggestions of amalgamation, namely, under private enterprise and under government ownership, involve dangers to the Canadian economy. Both assume interest payments on the enormous capital investment in transportation. The advantages of the third alternative, the present arrangement, have been evident in managerial efficiency shown in sharp reductions of expenses in relation to earnings on the part of both companies and in the elasticity of payments on capital chiefly a result of the financial policy of the Canadian Pacific Railway in its reliance on common stocks. In the violent economic swings to which Canada as a producer and exporter of raw materials and especially wheat is exposed, flexibility is a very valuable asset. Inherent rigidities involved in government ownership of railways and canals, railway rates influenced by American competition, and interest on public and private debt place a heavy premium on elements of flexibility. In spite of severe losses to Canadian Pacific shareholders, western farmers have been subjected to a most drastic decline in standards of living. Canadian Pacific common stock has served as a cushion which has softened the blow to the depressed areas. Capital has borne its losses with the farmers. Amalgamation under government ownership would increase fixed payments and widen the extent of rigidities. Nor is there any suggestion that amalgamation under private enterprise would differ materially. Moreover it is possible that rigidities would be increased through loss of control on the part of the government. Direction under private enterprise in relation to profits which tend to be linked to short-run considerations, is not necessarily in the best interests of the Canadian economy. The ability of Mr. Beatty is a major factor in maintaining flexibility and should be cherished in spite of his advice.

THE BASES OF THE FEDERAL SUBSIDIES

W. C. KEIRSTEAD

In his little volume upon the *Universe of Science* Professor Levy tells us that we cannot understand a physical event apart from its place in a temporal process. Then, too, since there is "no history without geography, and no time without space," an event must have its location in space. "This new found ability," he says, "to see ourselves in a time-space perspective . . . is perhaps the most significant change that has been brought about by the science of the last century."

This description of an event is especially apposite in the social sciences where, as Professor McIver tells us, "the synthesis of factors involved occurs only in and through the experience of mind." A social event arises out of the changing adjustments of outer structures or institutions to inner attitudes or interests. It is from this point of view that we wish to discuss the bases of the federal subsidy. We must locate these bases in the interaction of the attitudes and impulses of persons with their political customs and institutions. We cannot take the resolution of the Quebec Conference or of the London Conference or the section of the British North America Act as final or definitive, but we must view these as alike effects from causes and causes from other effects. To attempt to take any one of these doctrines apart from its place in history as a basis for the subsidy is an unhistorical and abstract method of treatment.

Again, a social event has a spatial spread; it is a focus of the contemporaneous as well as of the temporal processes. It should not be considered in isolation but in its organic relation to the whole situation. The financial arrangements of Confederation were a part of the total arrangements and must be viewed in their relation to the entire agreement. To attempt to attain an equality in subsidy grants apart from the larger equality in the common national life is to miss the unity of purpose and co-operative enterprise which animated Confederation. A strict equality in the subsidy might involve

inequality in the whole plan; in fact, the Fathers agreed to inequality in the financial terms as an offset to other inequalities within the agreement. Confederation was entered into by the provinces to promote their welfare and best interests. It was a bargaining process in which common ends were worked out under somewhat different conditions for each province.

I. THE HISTORICAL BASES OF THE SUBSIDIES

The interest-on-the-debt allowance was one important element in the federal subsidy. One of the first resolutions of the Quebec Conference declared it expedient to create "a general government charged with matters of the common interest and local governments with control of local matters in their respective sections."

In this division of functions the general government was given control of customs and excise, of railways and canals and in fact of all public works and enterprises except those of a purely local character. Under these terms the provincial railways and public works came into the hands of the Dominion government, and therewith the provincial debts incurred for them. Sir Robert Borden said in a debate in 1912:

There was justification for a debt allowance in the first place in that the provinces had incurred debt for the purpose of constructing public works, which at confederation were handed over to the Dominion of Canada, and with respect to which it was proper that the provinces should receive consideration.¹

There was evidently considerable discussion regarding the terms upon which the federal government would take over these enterprises. Canada had a debt per capita considerably in excess of the lower provinces. However, it was shown that about \$10,500,000 of this debt was for purely local purposes, such as loans to municipalities, and that many of these loans were interest-earning assets. This portion of the debt would remain a provincial debt and of course the assets also would belong to the province. But \$62,500,000 of the debt of Canada was incurred largely for railways and canals and would be taken over by the Confederation. Even

¹ *House of Commons Debates* (Canada), 1911-12, Vol. III, p. 4649.

this amount represented a per capita debt somewhat in excess of that of the maritime provinces, but since both Nova Scotia and New Brunswick had incurred obligations for railways under construction—in the case of Nova Scotia to the amount of \$3,000,000 and in the case of New Brunswick of \$1,300,000—and since these must be added to the existing debts, the total debt allowance of Nova Scotia of \$8,000,000 and of New Brunswick of \$7,000,000 gave her a per capita equal to that of Canada. Or to be exact, the per capita of Canada was \$24.92; of Nova Scotia \$24.17; of New Brunswick \$27.77.

Since debt allowances were to be given for assets transferred to the federal government, the question naturally arose as to the principle by which these properties were to be valued. Galt said at the Quebec Conference: "it is impossible to determine at this moment the debts and liabilities of each local legislature. But all should be treated on a principle of equality; there should be an auditor to audit the affairs of each province." Both Tupper and Archibald of Nova Scotia said in 1869 that they understood that the affairs of each province would be audited before a final settlement with the federal government was reached.

Was the Dominion government to take over these assets at what they had cost the provinces or was it to evaluate them in some other manner, such as their earning power? Tupper at the Quebec Conference and Gray of New Brunswick claimed that the debt of Canada was in the nature of stocks in railway companies that would never be of value, whereas maritime debts represented government-owned railways that were actually earning an income. "Twenty million at least of that debt" (Canada's debt), said Tupper, "was worthless." This question of evaluation came up again in 1869 in the claims of Nova Scotia for better terms. Nova Scotia claimed that the debt allowance given her was too small in comparison with that of Canada, whether measured by population, by revenues paid into the general treasury, or by assets actually transferred. Mr. Rose, the minister of finance, referred the memorial of Nova Scotia to the auditor-general, Mr. Langdon. This official did not think that the fact that Nova Scotia owned her railways gave her a right to a larger allowance than Canada, who had subsidized privately-owned roads. The

primary value of the roads was the service they rendered in transportation and trade, and Canada by her method of subsidizing privately owned roads had secured more miles of railways than had Nova Scotia by provincial ownership. He said:

Such assets are not a security for money but which are to remain the joint property of the whole, should be valued in some way. The amount they originally cost to the first owner, and the return in money which they may be expected to yield, are neither of them a sufficient test, though they may be taken into account in the valuation. The benefit which the whole country will derive from them is the true test. . . The practical value of our communications, whether natural or artificial, is the really important test.²

But he admitted that "such a valuation cannot be reduced to figures," and he held that the amount of customs and excise duties paid into the general treasury should be an important factor in determining debt allowances.

The minister of finance in commenting upon the report stated that it would be very difficult to make any adequate valuation of the property or assets of each province transferred to the Dominion. There would be, he said, such questions as "the advantages of geographical situation, the efficiency and economy with which they had been provided, and their prospective productiveness." An attempt at such valuation would lead, he felt, "to embarrassment with other provinces."

Evidently Mr. Rose recognized that a debt allowance was not a purely financial transaction but was in the nature of a political bargain. An auditor would have to evaluate properties; he would have to separate debts incurred for general from those for local purposes; in other words, he would have to treat the transfer as a purely business transaction and apply the auditor's principles of evaluation. But the provinces had these public debts in connection with these enterprises and the federal government had not only received the properties from the provinces but it had also taken from them the customs and excise duties by means of which the interest on the debts had been paid.

² Memorandum by John Langton, *Sessional Papers of Canada*, 1869, Vol. IV, Sessional Paper No. 9, pp. 22 and 27.

The federation must therefore accept the debts as they stood and pay the interest charges; for example, in the settlement made with Nova Scotia in 1869 the debt allowance was increased to \$9,188,756 which was the actual debt of the province, although it was also an amount equal to the per capita debt allowance of New Brunswick. The debt of Nova Scotia was taken over evidently on the basis of the actual cost incurred as shown by an audit of the accounts of that province.

But at the Quebec Conference both Prince Edward Island and Newfoundland were given debt allowances at the rate of 25 dollars per capita although this amounted in each case to a sum much greater than the actual debt. That is, an interest allowance on the debt became for these provinces a considerable increase of the annual subsidy. The excuse given for this special treatment was that these provinces would by their customs and excise duties help to pay the interest upon the federal debt, and therefore should have themselves a debt allowance proportional to their revenues. But, provided that the assets transferred with their debts by the other provinces were really productive in the way of trade and transportation facilities for the common welfare, they would be self-sustaining and therefore not burdensome. The fact, however, was that neither Newfoundland nor Prince Edward Island stood to gain to any appreciable extent from the expenditures that had been incurred by the provinces or would be incurred by the federation in establishing transportation systems. The Intercolonial Railway would not help Newfoundland and would not benefit Prince Edward Island as it would the other provinces, yet they must help pay for its construction. It was for this reason that they were granted an offset in the form of a larger debt allowance, and even then they did not consider the bargain sufficiently attractive to accept. Thus from the start the debt allowance became a means of giving a special subsidy to a province.

Since that time the debt allowance has been used to give special favors to new provinces. This has been done either by increasing the amount per capita as in the case of Prince Edward Island in 1873 or by assuming a population in excess of the actual population at the time as in the case of British

Columbia, Manitoba, and the prairie provinces, or by giving a debt allowance to a province which has no actual debt and which therefore transfers no assets to the federal government. The new provinces of Saskatchewan and Alberta, created in 1905, were given a debt allowance sufficient to provide them with an annual subsidy, as interest on debt, of \$405,375 a year. Thus the debt allowance became a fiction by means of which a province could receive an annual grant from the Dominion treasury.

The main element in the federal subsidy is of course the allowance of 80 cents per capita, which the federal government pays each province for local purposes. This amount, we are told, was agreed to at the Quebec Conference after a controversy so serious that it threatened to break up the Conference. Upper Canada had a well-established system of municipalities which were accustomed to impose taxation for local expenditures and the delegates from this province stood firm for the position that local legislatures should resort to direct taxation for any revenues which they needed in addition to those derived from their crown lands. On the other hand no such municipal system existed in Lower Canada and the maritime provinces and peculiarly local needs, such as roads, bridges, schools and other such matters, were paid for by provincial grants. The customs and excise revenues had proved sufficient to meet all their local needs and these delegates would not consent to any arrangement that would necessitate a resort to direct taxation for provincial purposes, nor indeed could they expect any success with such a scheme either in their legislatures or at the polls. The subsidy payment of 80 cents a head was an expedient to avoid the deadlock at the Conference. Tupper, speaking in the legislature of Nova Scotia in 1865, says that the amount was fixed at 80 cents per capita on the census of 1861 because this was exactly the amount that Nova Scotia needed to meet its local needs, whereas in addition to this amount New Brunswick "was given a special grant." There was a clause in this section of the resolution which was also embodied in the B.N.A. Act to the effect that this amount "shall be in full settlement of all future demands upon the general government for local purposes."

Did this clause mean that the Fathers of Confederation agreed that the provinces should resort to direct taxation in case they had miscalculated their local needs? Brown undoubtedly interpreted the clause in this manner. He had been irritated by the demands which Lower Canada was continuously making upon the treasury of the United Province for local needs, and he meant that in the federal government these demands should cease, and in this he had undoubtedly many supporters.

At the same time, when faced with the question, the statesmen at the Quebec Conference were unable to put over the scheme that involved direct taxation by the provinces, either at that time or in the near future, and they were unable to do it at the London Conference or in the years immediately following Confederation. Confederation was impossible unless the federal government gave back to the provinces from the revenue surrendered by them a sum sufficient to enable them to meet local needs. Galt points out that this finality clause, as it was called, would tend to make the provinces economical, but he was careful to show that the local revenue for both Upper Canada and Lower Canada under the scheme would be equal for present and future needs. He thought that if those carrying on the administration exceed the amount provided they would be "guilty of a degree of profligacy and extravagance for which a speedy remedy would be found by the people."

Hector Langevin, speaking in the Legislature of United Province of Canada upon the Quebec Resolutions, claimed that Lower Canada would have adequate revenues without resort to direct taxation and that the cry of direct taxation by the opponents of Confederation was "a bugbear in order to alarm the people of Lower Canada." Tilley of New Brunswick explained to his legislature that New Brunswick would have ample revenue for its needs. When his opponent, Mr. Smith, told him that the revenues of the province would double in twenty years and that expenditure would also increase, whereas the subsidy was practically fixed, Mr. Tilley undertook to forecast the revenues of New Brunswick under Confederation for twenty years in advance, and claimed that they would be ample for the growing needs of the province.

Tupper in Nova Scotia and Whalen in Prince Edward Island took the same position. It would seem that there was differences of opinion on this matter of direct taxation at the Quebec Conference and that the Fathers, having reached a compromise for the time being, let the matter rest at that. Cameron, speaking in the debate in the United Province, said:

So it seems that these gentlemen who have represented to us that they acted in great harmony and came to a common decision when they were in conference, take a widely different view of the questions supposed to have been agreed upon, and gave very widely different accounts of what were the views of parties to the conference on various subects. In the Lower provinces they were strongly opposed to direct taxation while here it was presented as one of the advantages to accrue from the Federation. . . . If the amount allowed for the expenses of local legislation—the 80 cents per head—was found insufficient, local parliaments must resort to direct taxation to make up the deficiency, while in the Lower Provinces, it seems, that nothing of the kind was to follow.³

It must be remembered, however, that the Quebec Conference did not settle the terms of Confederation. At this Conference it was agreed to submit the Quebec Resolutions to the legislatures of each province. But Tilley found strong opposition especially to the financial arrangements. When he returned from the Quebec Conference the legislature had nearly reached its limits and Lieutenant-Governor Gordon persuaded him to go to the people upon the Quebec scheme of Confederation. The result was an overwhelming defeat for him.

In Prince Edward Island and Newfoundland the scheme was rejected. After the defeat in New Brunswick, Tupper of Nova Scotia did not dare to risk a resolution in favor of the Quebec plan. In the meantime, however, Lieutenant-Governor Gordon received instructions from the British government that he must do all within his power to promote the Confederation of the British North American Provinces. In 1866 he laid before the legislature of New Brunswick a communication from the British government “expressing the strong and deliberate opinion of Her Majesty’s Government that it is an object much to be desired that all the British North American Provinces should be under one government.”

³ *Parliamentary Debates on Confederation* (Quebec: Hunter, Rose, 1865), p. 459.

Moreover the letter states that since the British government has the duty of the defence of the colony the latter should recognize and consider the measures which the imperial government considers most expedient for the colony with a view to their own defence.

It is unnecessary to enter into any detail concerning the strong methods which Gordon used to bring about another appeal to the people and to form a government favorable to Confederation. Suffice it to say that he succeeded, but the new government although favorable to Confederation, was not committed to the Quebec Resolutions. It had in it supporters who had opposed these resolutions in the former election and it advised His Excellency the Lieutenant-Governor to:

to appoint delegates to unite with delegates from the other provinces in arranging with the Imperial Government for the union of the British North American Provinces upon such terms as would secure the just rights and interests of New Brunswick.⁴

In this resolution the delegates of New Brunswick were given power to enter into a confederation upon such terms as they themselves and the British government felt would safeguard the interests of this province. It was not until New Brunswick had appointed this delegation that Tupper was able to put through a dying legislature a resolution in practically the same terms appointing delegates from Nova Scotia to a conference at London.

The delegates from these provinces met with those of the two Canadas in conference at London. Since the legislature of Canada had passed the Quebec resolutions as the basis of union the delegates from these provinces felt they were bound by the action of their legislature whereas the delegates from the maritime provinces were not so restricted. However, the Canadian delegates asked their maritime brethren to state their specific objections to the Quebec scheme in order that if possible a compromise might be effected. One objection was the financial arrangement and this section was amended. Instead of paying the 80 cents per head on the population as

⁴ *Debates in the Legislative Assembly of New Brunswick, 1867* (second session), synoptic reports.

fixed by the census of 1861, the B.N.A. Act provided that in the case of New Brunswick and Nova Scotia the 80 cents per head should include all persons in each province as shown by each subsequent decennial census until the population reached 400,000 persons.

Then, in addition specific grants for the support of the government and legislature are provided by the B.N.A. Act as follows: for Ontario, \$80,000; Quebec, \$70,000; Nova Scotia, \$60,000; and New Brunswick, \$50,000. These fixed grants are more favourable to the smaller provinces than if they were paid on a per capita basis. The financial section carries also the finality clause. The Fathers who passed this clause at the Quebec Conference changed it at the London Conference and changed it several times thereafter in the first few years of Confederation.

The government of Nova Scotia in bringing that province into Confederation acted without question against the will of the people. Hon. Mr. Bright, speaking in the British House of Commons at that time, said that the passing of the Confederation Act against the will of the people of Nova Scotia was an act of tyranny. In the election which followed in Nova Scotia immediately after the passing of the Act, only two of the 38 members returned to the legislature were favorable to the union, and of the 16 members elected to Ottawa Dr. Tupper alone was elected on the union side.

The new legislature of Nova Scotia at once took action with the British government with a view to withdrawal from the union. It objected to the increased taxation which the union would bring to Nova Scotia and to the fact that the terms of the union did not give the province sufficient revenue to carry on local government. It held, moreover, that a small province like Nova Scotia would lose its identity and self-determination in so large a union and that its interests would not get proper consideration. But the British government replied that Confederation was an accomplished fact and that it expected the loyal citizens of Nova Scotia to abide by it, but that the parliament of Canada should see that their special interests relative to trade, taxation and the fisheries, were dealt with justly and effectively. As a result of this suggestion from the British government, Sir John Macdonald

as prime minister of Canada opened up a correspondence with Mr. Joseph Howe of Nova Scotia which led to readjustment of the claims of that province. As already indicated, the debt allowance was increased from \$8,000,000 to \$9,186,756 and Nova Scotia was given a special grant of an additional \$82,692.00 for a period of ten years.

These terms were given after the federal auditor-general, Mr. Langdon, had made a careful examination of the claims and accounts of Nova Scotia. He found that the debt of Nova Scotia had increased to the amount just mentioned and had been incurred almost entirely for railways that would become the property of the general government. As a result of these expenditures Nova Scotia was unable to meet its local wants without direct taxation to the extent of \$200,000 or \$250,000 a year.

But had Nova Scotia remained out of Confederation she would yet have been unable to pay for her expenditures without raising her local excise and customs duties to the level of the federal tariff. Had she done this, however, she could have balanced her provincial budget whereas under Confederation she had a deficit. That is, Mr. Langdon found that the province of Nova Scotia was financially handicapped by Confederation. Acting on this report, Mr. Rose recommended the terms, already mentioned, to the parliament of Canada and they were passed in the session of 1869. Yet in the face of these facts it has been claimed that this Act for Nova Scotia was a violation of the Confederation agreement. As a matter of fact it was the only means by which Nova Scotia would remain in the union unless as they said "they were forced to it by the use of English bayonets."

The better terms for Nova Scotia, however, aroused opposition. The legislature of Ontario sent a memorial to the sovereign, praying that a measure be "submitted to the Imperial Parliament to remove all colour from the assumption of the Parliament of Canada of the power to disturb the financial relations between Canada and the several provinces." The memorial states that the parliament of Canada has not the power to change the financial relations and that they ought not to be changed without the assent of the several provinces. But the government of Sir John A. Macdonald,

composed of the men who framed the Quebec Resolutions, gave the better terms to Nova Scotia. Galt, who in 1869 was practically an independent member, and who had supported the finality clause, supported this measure for Nova Scotia. "It had happened," he said, "that the resources given under the Act had not been sufficient to meet the needs of Nova Scotia and hence there had arisen the necessity for the resolution." He would "not adhere to an arrangement under which it would be impossible for Nova Scotia to remain in the Union." This attitude of Galt represents the attitude of the Fathers towards the finality clause. They lived in a political atmosphere in which the supremacy of parliament was recognized. Sir John Macdonald claimed that the federal parliament had authority to pass this legislation "in order to promote the peace, order, and good government of Canada." The Colonial Secretary, and law lords of the crown, advised that the parliament of Canada was competent to pass the measure under the powers vested in it by section 91 of the B.N.A. Act.

In the parliamentary session of 1870 Mr. Blake moved a resolution asking the British government to amend the constitution of Canada in a manner that the parliament of Canada "shall not have the power to disturb the financial relations of the B.N.A. Act between Canada and the several provinces as altered by the Act respecting Nova Scotia." He stated that the scheme of Confederation would not have been carried in his constituency if it had been supposed that any further grants would be made for local purposes. Blake's resolution was defeated, but a resolution was passed, stating that:

this House is of the opinion that no further grant or provision beyond those made by the Union Act and the Act respecting Nova Scotia should be in the future made out of the revenues of Canada for the support of the legislature or government of any one of the provinces.⁵

However, the allowance of 80 cents per head has been used to provide assistance to needy and importunate provinces. One way of giving special assistance has been to estimate the population in excess of the actual population. In 1881 the

⁵ *House of Commons Debates (Canada)*, 1870, p. 770 ff.

population of Manitoba was estimated at 150,000 when it was actually less than 55,000. Again, in the case of the prairie provinces, there was an estimated population and instead of basing the subsidy upon the decennial census, it is based upon the increase of population after every two and a half years. This fact alone gave Saskatchewan during the period from 1905 to 1925 about \$2,305,000 more than she would have been paid had the subsidy been based on the decennial census.

It was natural that the provinces should object to the fixed character of the subsidy and to the fact that it was based upon the population of 1861. In 1883 the province of Quebec petitioned the parliament of Canada to have the subsidy based upon the population of each decennial census, for the expenses of local government increase naturally with the growth of population. It was not, however, until 1907 that this section was amended so that the 80 cents would apply to the population as ascertained by each census until the population of a province had reached 2,500,000 and thereafter the rate was to be 60 cents per head.

The special fixed grant which was introduced at the London Conference remained practically unchanged until 1907. It is clear that the allowance per head of population has been interpreted in a manner to permit of additional revenue to new provinces or to provinces under special conditions.

In amending the Subsidy Act in 1907 Sir Wilfrid Laurier said that there could be no finality in subsidy matters; parliament, he said, can do as it pleases, and the only finality is to be found in the will of the people and parliament itself. At that time Sir Robert Borden suggested that the subsidy should be amended at stated periods much as the Bank Act is amended at the present time.

Undoubtedly the Fathers of Confederation aimed at a certain measure of equality in the financial arrangements. The increase in intercolonial trade, the development of transportation and the common defence were to be mutually beneficial to the original partners and consequently the financial terms should be based on a common principle. For this reason a subsidy of 80 cents per capita was given to all the

provinces although some needed it more than others. This principle of equality has often been maintained since Confederation. Sir Alexander MacKenzie told Nova Scotia in 1876 that "no additional grants could be made to Nova Scotia without involving similar grants to the other provinces," and Sir Richard Cartwright replied to New Brunswick in 1873 that "in view of the enormous engagements to which the Dominion government is now committed and of the inexpediency of disturbing present financial arrangements" he could not recommend any increase. When in 1873 the Dominion government assumed the \$10,500,000 of provincial debt for Quebec and Ontario that it did not assume at Confederation, a like increase was given to the other provinces and when in 1884 the Dominion government gave another increase in the debt allowance (made by dating the increase of 1873 back to 1867) this increase was also made universal. The revision of the subsidy in 1907 was a general one, preserving equality of treatment. But it must be remembered that this revision was occasioned at least in part by the special terms given to Saskatchewan and Alberta in 1905.

As a matter of fact, the principle of financial equality has never operated in a way to prevent special treatment to a needy or importunate province. It is simply not true to say that special treatment arose after Confederation, and is a violation of the spirit and principles of Confederation, because it is embodied in the Confederation agreement. The Quebec Conference agreed to give New Brunswick a special grant of \$63,000 a year for ten years. Why? Simply because the province needed this additional amount in order to carry on its local government and it could not and would not enter into Confederation and receive the support of the legislature and its electorate unless it received this additional amount. The Fathers of Confederation decided it was better to give this special amount to New Brunswick than to increase the public expenditure by a like proportion to all the provinces. Brown in commenting upon this special grant pointed out its necessity and reminded the people of Upper Canada that New Brunswick was a good consuming market and would pay its share of the customs revenues and be a good purchaser of manufactured goods.

Thus the principle of special grants for special needs was recognized at Quebec and is embodied in the British North America Act. Newfoundland was offered special treatment at the Quebec Conference; it was to receive a special grant of \$150,000 a year, but in order to make this palatable to the other provinces the Confederation was to take over its crown lands. Then both Newfoundland and Prince Edward Island were given debt allowances much above their actual debt as an increased subsidy to meet local needs. Again, in 1869 in order to win the consent of Nova Scotia to the union, she was given a special grant similar to that already mentioned for New Brunswick. British Columbia entered Confederation under special terms; a grant of a hundred thousand dollars a year, in lieu of which she agreed to give the Dominion a strip of crown land which has recently been returned to the province. Prince Edward Island was given a special grant of \$45,000 a year in lieu of land—that is because its lands were owned by private landlords. In fact, as Sir Wilfrid Laurier said, each new province entered Confederation upon terms more favorable than those of the older provinces. Professor Maxwell has shown that the land subsidy was a device to afford special revenue to the new provinces. When in 1905 Sir Wilfrid Laurier created the provinces of Saskatchewan and Alberta he asked first of all what revenues they would require to set up provincial housekeeping. He then subtracted from this amount the sum they would receive from local services and decided to provide the rest by a subsidy. This he did by giving them a fixed grant, by basing the subsidy of 80 cents upon an assumed population, by giving to each province a debt allowance (although the provinces had no debts) which would provide an annual subsidy of \$405,000 a year in the form of interest on debt allowance, and the rest that was needed was given as a subsidy in lieu of land. At first there was a pretence of evaluating land; the amount was to be equal to the value of 25,000,000 at \$1.50 an acre, but this pretence was soon abandoned, and the land subsidy was granted because the provinces would have no revenues from crown lands and therefore must get revenue from other sources. In a House of Commons debate in 1905 we read:

Mr. Borden: Why not adopt the suggestion that this increased subsidy is necessary for the carrying on of these provinces?

Mr. Oliver: This is what is done; this is a special allowance in lieu of land.

Mr. Foster: Why this estimation of 25,000,000 at \$1.50 an acre?

Sir Wilfrid Laurier: We took the position that the governments of the new provinces were not entitled to their lands.

Mr. Foster: You want to get a sum to make the amount you have decided to give these provinces; the land evidently had nothing in the world to do with it.

Mr. Oliver: The Honourable gentleman might have saved himself a good deal of argument if he had been in the House sooner. There is no question before the Committee of calculations with regard to the land at all.⁶

Within recent years the unalienated crown lands have been returned to the prairie provinces, yet they have been allowed to keep the subsidies granted in lieu of lands, and in 1927 on the recommendation of the Duncan Commission the maritime provinces were granted interim subsidies or special grants.

It is unnecessary to follow in further detail the features of special grants. Confederation was a political scheme; provinces could not simply be coerced into it but it was necessary to secure the support of the local legislatures and of the electorate. Such support was not obtainable if the scheme was to lead to direct taxation or impose new burdens upon a province. The advantages were far more obvious and direct for some provinces than for others. Special subsidies were simply necessary under all the conditions for the success of the undertaking. It has been pointed out that special grants have generally been given to political supporters and often very soon before election. Unfortunately most expenditures of public money have shown the same tendency. Tariff policies, transportation systems, unemployment relief and old age pensions have all been placed before electors to win support. Subsidy grants are not peculiar in the fact that they seek to create good will and political friendliness.

The principle of special treatment for special or peculiar needs runs throughout the history of our federal subsidies

⁶ *House of Commons Debates* (Canada), 1905, Vol. III, p. 5180.

and is expressed in our constitutional documents. The Fathers who compromised at Quebec to attain Confederation make similar compromises under similar conditions.

II. THE SPATIAL OR LOGICAL BASES OF THE SUBSIDIES

But the financial terms of Confederation must be viewed in their relation to the entire scheme. Confederation arose because the colonies believed that they had common interests of great value which could be advanced by a common government. The building of the Intercolonial Railway, for example, was a matter of common concern and the trade it would develop would be mutually helpful. They made a very clear-cut division between general and local needs. The federal government which would take over all common interests would have much the heavier burdens to bear, and consequently would need the greater revenues. It was not thought that the local governments would have heavy expenditures or that these expenditures would increase to any great extent in the near future. As Mr. Coats has pointed out, they held a *laissez faire* theory of government and did not foresee the enormous growth in provincial expenditures for education, welfare work, highway construction and developmental purposes.

Again, the Fathers did not expect or intend that provincial governments should exercise the important functions that they do to-day. They were to be large municipal councils. Macdonald favored a legislative union; McGee hoped that "a legislative union might come at a later stage;" Tupper said that were it not for the situation in Quebec and for the fact that many of the provinces had not municipal government, he would favor a legislative union, and Fisher of New Brunswick felt that a legislative union was the ideal. Under all the conditions a legislative union was not obtainable; yet the Fathers meant that the new government should have full control of the common interest and should give the citizens of the new Dominion a common political life. Confederation was not in their minds a mere partnership for certain specific ends; it was to create a new nationality and a new type of citizen. Unfortunately, during the past sixty years and partly through the decisions of the courts, the Dominion govern-

ment has been far more limited in its functions than was intended and the old colonial or provincial spirit and attitude still obtains.

What is more, "things are not cut off with a hatchet" in the sharp manner that the Fathers seemed to think. There are no general interests as such which do not give special favors or advantages to certain sections more than others, and there are no interests so purely local as not to have general significance. The building of the Intercolonial Railway did not naturally appeal to Newfoundland as it did to the maritime provinces and the opening up of the great north-west was of more value to Ontario than to eastern Canada. In fact, the great expenditure for the development of the west, while helpful to the manufacturers of Ontario, have been burdensome to the farming interests of the maritime provinces. Thus, the general interests involving general taxation are to an extent sectional, and are indeed often burdensome to some areas or provinces. At best they are general in the main and in the long run.

Again, the so-called local interests, such as those of health, education, the provision for unemployment, highway transportation, are all general in significance, and to-day would be regarded as general rather than local in character. If we turn to the public accounts for 1933 we find that the subsidies to the provinces including the special grants to the maritimes amounted to slightly more than \$15,000,000, whereas the total grants-in-aid for old age pensions, unemployment, employment officers and technical education, amounted to nearly \$50,000,000, and if we add to this the pensions to soldiers in the World War we have a total of nearly \$90,000,000.

The following statement shows the total subsidy allowances and grants-in-aid paid by the federal government since Confederation:

Subsidy allowances to March 31, 1934	\$478,146,075.00
Special grants to Maritime Provinces to March 31, 1934.....	11,200,000.00
Agricultural Instruction Act	11,399,882.00
Technical Education	7,966,039.00
Canada Highways (Dominion Aid)	20,000,000.00

Venereal Diseases Control	1,641,896.00
Unemployment Relief—previous grants	15,177,476.00
“ “ —Relief Acts	96,851,472.00
Wheat Bonus	12,719,900.00
Employment Offices	2,685,816.00
Old Age Pensions	42,018,003.00

Yet, in the main these grants-in-aid are for functions of government which by the terms of Confederation are in the hands of the province. In any treatment, therefore, of the financial arrangements, these special grants must be considered. It will be seen also that these special grants are of comparatively recent origin and that at the present time they represent a much greater outlay than do the subsidies provided by the B.N.A. Act.

Then, in the matter of taxation the provinces at the time of Confederation never thought for a moment that the customs tariff would be used for the protection of industry. Customs and excise at that time, especially in the Lower provinces, were purely forms of indirect taxation. It is true that Nova Scotia opposed Confederation because she feared that this indirect taxation would be increased. A certain increase was expected, because of the developmental policy to which the federation was committed, but it was not supposed that the tariff would be used to protect industry by taxing the Canadian consumer or that certain areas or provinces would be afforded this protection by increasing prices upon all other areas. Galt hoped to reduce the general tariff after Confederation to about 15 per cent; that is, to the tariff existing in New Brunswick. Tilley in 1867 assured the legislature of New Brunswick that they would not pay more in taxation than they had paid during the last seven years, whether “for the present, the future or all time to come,” and Fisher assured the House that the tariff now existing in Canada was higher than the new tariff would be under Confederation. At the time of Confederation the taxation per capita was very low—less than one-fifth what it is to-day. Undoubtedly this policy of tariff protection has been detrimental to certain areas and provinces of Canada, and it is one of the factors to be considered in the financial relations between the federal government and a province.

III. THE BASES FOR FUTURE SUBSIDIES

What, in the light of all the facts, should be our policy with respect to the subsidy? In social sciences human prejudices and interests are factors which must be considered along with what might be called objective fact. Our subsidy policy in the future will have to relate itself as a matter of political expediency to our historical situation.

It will be admitted of course that it is not a good principle to have one government raise revenue and another government spend it. For a government to look continuously to the Dominion treasury for increases in revenue does not promote economy, efficiency or that independent spirit which is as essential to a province as to an individual. Judge Duncan criticized the subsidy feature in 1865 and said, "I am afraid the political constituencies, legislatures and executives will show a most calflike attitude for the milking of that most magnanimous government cow." It cannot be denied that our local legislatures have often manifested considerable extravagance and inefficiency, and have shown an unwillingness to impose direct taxation, but have made instead importunate demands upon the federal government for an increased subsidy. It is essential that the federal treasury should carefully consider provincial conditions and needs before granting a subsidy increase. A system that would redistribute the functions of government and the revenues therefor, in order to do away with the need of subsidy, would be in theory much better than our present system. Perhaps so radical a distribution is not politically expedient, but certainly a better division of governmental functions and revenues therefor, in order to do away with the need of subsidy, would be in theory much better than our present system. Perhaps so radical a distribution is not politically expedient, but certainly a better division of governmental functions and revenues is attainable and better methods should be adopted for the apportioning and increase of the subsidy. The subsidy as provided by the B.N.A. Act is so rigid that it could only be increased by special or general raids upon the federal treasury in the ways already indicated. The amount of subsidy provided is, of course, much smaller than

the federation of Australia gave to its states. Galt felt at the time of Confederation that he must finance both the general and the provincial government out of the \$14,230,000 of revenues which the provinces entering Confederation were then receiving. To increase expenditures and taxation would make Confederation unpopular at the polls. The provincial governments would require nearly \$4,000,000 and since local revenues would give them \$1,500,000 they needed a subsidy of about \$3,000,000. Thus the subsidy amounted to about 21 per cent of the total revenue of the time. When Mr. Tilley gave an increase in the debt allowance in 1884 he said that it was an increase "sufficient to put the provinces in the position that they occupied at Confederation." With the rapid increase in taxation by the Dominion the subsidy has become a much smaller percentage of the federal revenue. A few years ago it was less than 7 per cent of the Customs and Excise, and to-day it is little more than 5 per cent of the total income from federal taxation.

There has been, however, a great increase in provincial expenditures. Such services as education, highways, old age pensions, mothers' allowances, unemployment and hospital care have greatly increased the cost of provincial government. During the last fourteen years provincial government revenues have increased 276 per cent and expenditures about the same amount. The increase in provincial debts is becoming a serious matter in provincial finance; last year Ontario was the only province to balance its budget. An end must soon come to this capitalization of annual deficits if provincial credit is to maintain itself.

On the other hand the World War, great public works, and the depression have thrown tremendous burdens upon the federal government and have made its problem of securing revenues an exceptionally difficult one. Our problem is the problem of Galt: how out of the revenues derived from the taxation of the people can we provide for all functions of government in the most efficient and economical manner? What distribution of functions and revenues will accomplish this end?

The fact that the federal government has resorted to a system of grants-in-aid for the support of services which

are constitutionally provincial is a recognition of the inadequacy of the present system. The subsidy was to be in full settlement of all the demands that the provinces should make for local needs, yet in 1933 the federal government spent about three times as much for grants-in-aid as it did for subsidy payments.

That grants-in-aid are not the best method of caring for some of these services must, I think, be admitted. Especially is it true that it is unwise to give a grant for a limited term of years if the province is unable to carry on the service when the grant is dropped. Again, when the grant is conditional upon the performance of a specific service, the province if it fails to perform the service not only does not receive the grant but must contribute its share of the cost for this service throughout the Dominion. Again, the highway expenditures, for example, carried on by several of the provinces were extravagant and out of proportion to the revenues of the provinces. This extravagance was encouraged by grants-in-aid from the federal government. The doubtful financial condition of some of our provinces—their excessive debts and interest charges—is due in no small measure to excessive highway construction.

If the amount which the Dominion government would give the province of New Brunswick, for example, for old age pensions could be spent for mothers' allowances or to provide a more adequate and humane system of poor relief, it would be used more wisely than for old age pensions. At present this province is unable to pay its share of the old age pensions and it has neither old age pension, nor mothers' allowances. Its poor relief is inadequate and inefficient.

It will be generally admitted that the relief of unemployment should be better administered than at present. Under the grants-in-aid it is being administered, in some provinces, by municipal or parish officers and without the central organization and expert supervision which are necessary to good administration. Co-operation in administration may be wise in such functions as health and agriculture which are common to both governments and it may be desirable in many other functions. But it would seem that there should be a re-grouping of the functions of government and that

the services which concern the common welfare should be carried on by the general government and supported by the tax-paying ability of all Canada. In this manner we can provide that equality of opportunity which the citizens of one nation should possess. The problem is complex because no sharp line can be drawn between the general and the local on the one hand and because it is often difficult to determine whether the administration can be best performed by the provincial or the federal government.

It would seem also that the larger provinces desire to carry on certain services that the smaller provinces would prefer the federal government to provide, such as the regulation of insurance and the settlement of industrial disputes. In the redivision of functions, might not this difference in provinces be recognized and provided for?

Again, in such redistribution of functions by an amendment of the B.N.A. Act, provision should be made for a co-ordination of the functions and jurisdiction of provinces with each other and with the federal government in taxation. Professor Kemp has shown in his paper given before that if the income tax upon individuals or even upon corporations also were given to the provinces, it would not provide sufficient revenue for the provinces that need it most.⁷ But it is possible that as the situation improves the federal government might increase its exemptions and lower its rate upon small incomes, taxing the heavier incomes by a progressive income tax. Then the provinces and municipalities could tax the smaller incomes, giving lower exemptions but not increasing the rate upon higher incomes to a great extent. There is a tendency in Canada to-day for provinces and municipalities to draft their income tax laws according to the pattern of the federal income tax. There would be considerable gain if all income tax laws were much alike and if we could have one system of administration. In Germany, for example, there is one income tax law administered by the federal government but states and municipalities add their rate to

⁷ H. R. Kemp, "Is a Revision of Taxation Power Necessary?" *Papers and Proceedings of the Canadian Political Science Association*, Vol. III (1931), pp. 185-201.

the federal tax rate. Thus each government imposes its own taxation, but there is unity in administration. The method of administration of such an income tax law in Canada might be decided upon after a careful investigation of the present income taxing bodies throughout Canada. Again, similar measures should be taken in co-ordinating inheritance taxation and the taxation of companies.

But whatever methods are used, greater equality of opportunity should be provided for the citizens of Canada. Whether through a redistribution of functions or by the co-operation and support of the federal government with the provinces, the fundamental services should be provided to a greater extent than at present for all the citizens of Canada and paid for on the basis of the common ability to pay. However, if the federal government is to assist the provinces in performing the services that have hitherto been called local, it should exercise greater supervision over the provinces than has hitherto existed. A province that is willing to take federal assistance should be willing to meet reasonable conditions of supervision and regulation. The federal government is faced with the serious problem of provincial debts. The public accounts for 1933 show that the federal government extended loans to the four western provinces amounting on the whole to \$38,199,154.20. These loans were absolutely necessary to enable these provinces to maintain their credit and it is not surprising that the federal government in granting them required some control over future expenditures.

In Australia there has been established through the co-operation of the federal government with the states a loan board which has taken over the administration of the state debts and the federal government makes its subsidy grant toward the payment of the interest of these debts. Under the scheme, not only is a lower interest rate secured but provision is made for the control of new debts and for the gradual payment of the existing ones. There are of course difficulties in adopting any such scheme in Canada, but the plan of Australia might be studied with profit in order to devise some method of dealing with our own problem. If the federal government is to give more than the ordinary subsidy to a

province it should have some control over its expenditures and this control should exist if the federal government is to assume responsibility for provincial debts. It would seem that provinces which need extra help from the federal government should be limited to some extent in their expenditure and in their power to increase the public debt.

If the federal government is to bear any large portion of the expenditures of a province it should have effective means of ascertaining that these expenditures are wise, and are administered efficiently and honestly. If the spoils system could be eliminated entirely, provincial services could be provided at much lower cost than they are at present. Under present conditions, when so large a portion of the revenue of the people is used to provide services through governmental agency, it becomes increasingly important that the standards of business efficiency and integrity which obtain in the best private enterprises should find a place in governments. There is considerable waste, inefficiency, and, one fears, extravagance and lack of real honesty in the administration of provincial affairs. If the income tax returns of the federal government could be open to investigating bodies they might afford a means of checking up government contracts and purchases and of determining whether such things as rebates or rakeoffs exist. Our provinces undoubtedly need more revenue, and they need also to use the revenue they do have to better advantages.

A provincial government in seeking assistance from the federal treasury should be able to show that it is taxing its own citizens for these needs quite as heavily as are the provinces independent of such support. Why is it, for example, that the provinces of Ontario and Quebec are never asking for increases of subsidy, whereas the maritimes and the four western provinces are insistent and importunate in their demands? Is it that Ontario and Quebec have more independence of spirit and are more willing to impose taxation upon themselves, and have the rest of us become so accustomed to this dole system of the subsidy that we have lost the spirit of independence? It may be so; on the other hand, Ontario and Quebec are the great centres of manufacturing, of pro-

duction and of large incomes, and their taxation measured by net production or by income is not as heavy as is the taxation of the western provinces. Ontario and Quebec have asked for no special privileges by way of subsidy, but they have profited by the political and economic policies of the Dominion to a greater extent than any other portion of Canada.

In the study of New Brunswick's case for an increase of subsidy in 1927 it was pointed out that in proportion to its wealth, income and net production, taxation in New Brunswick was quite as heavy as in the other provinces. Professor Kemp in dealing with the taxpaying ability of the provinces in 1931,⁸ said we had "no objective data by which the taxpaying capacity of the provinces for provincial purposes may be satisfactorily measured or compared." It may be true that we have no exact measurement, but Professor Kemp himself presented data to show that there is considerable inequality of taxpaying capacity. For example, he shows that in the province of New Brunswick, provincial expenditures amounted to \$15.50 per capita, whereas the average of the per capita expenditures for all the provinces was \$18.12, yet this amount meant .85 of the percentage of wealth of New Brunswick, as against a general average of .62; it was 4.7 of the net production of New Brunswick as against 3.6 of the general average, and it was 39.3 of the income as against an average of 27 for all the provinces.

Professor Giblin of the University of Tasmania has attempted to work out a measure of the taxpaying capacity of the provinces of Australia, using very largely the income assessments as an index of paying capacity, and he found considerable inequality among the states of the Commonwealth. Perhaps the income assessment of the federal government is about the fairest estimation of the taxpaying ability in the various provinces. In a province where 70 per cent of the people are small scale farmers or fishermen, and where their average income would probably be less than \$700 a family, it is exceedingly difficult to get a large amount by direct

⁸ Kemp, *loc. cit.*

taxation. Taxation to be productive must rest upon production or upon incomes above the level of subsistence; any attempt to collect direct taxes upon citizens who are eking out a bare existence is doomed to failure. The following statement is based on the income returns of the federal government for the fiscal year 1932-3:

TABLE I

Provinces	Per cent of population, 1931	Per cent of individual income taxpayers	Per cent of income taxes paid (Individual and Corporation)	Assessment per capita (Individual and Corporation)	Per cent of population paying individual income tax.	Average tax per taxpayer	Average tax per Corporation
Prince Edward Island	.85	.30	.14	22.89	.0055	51.00	\$1047
Nova Scotia	4.94	2.00	1.43	46.30	.0097	89.85	1786
New Brunswick	3.93	2.39	.95	39.80	.0098	86.	1429
Quebec	27.71	22.43	34.57	90.00	.013	254.29	7584
Ontario	33.08	46.03	49.43	130.60	.022	140.18	6220
Manitoba	6.75	7.34	3.44	76.50	.017	82.87	2643
Saskatchewan	8.88	3.73	.54	21.50	.0067	35.71	723
Alberta	7.05	5.03	2.27	44.77	.011	52.96	2880
British Columbia	6.70	9.53	6.58	127.20	.023	104.12	3720

The subsidy had its origin in the political necessities of Confederation. It was a compromise, which Brown tells us was resorted to because apart from it Confederation could not be effected. On the other hand the subsidies were kept to small and fixed amounts and the finality clause was added to meet the objections of those who believed in direct taxation for provincial revenues. The Fathers sought to legislate terms for the future that they were unable to impose upon their own day. But they soon found that the forces which led them to provide for the subsidy were potent to compel them to increase it and to extend its features to new provinces.

The subsidy was one feature among others in the Confederation terms of agreement. It was based upon a general principle of equality but at the same time it had special modifications to meet differences of conditions and needs.

The entire situation has so changed since 1867 that nothing but a drastic revision of the British North America

Act can meet the present conditions. Such a revision will be difficult to accomplish and should be based upon a very careful and thorough investigation of all phases of our political problem. A commission of economists, political scientists, administrators and statesmen should render important service in the preparation of data and the presentation of facts. Would this Association support a revision of the Act and the appointment of a Commission with this end in view?

PROVINCIAL CONFERENCES AND BETTER TERMS

J. A. MAXWELL

In 1887 Honoré Mercier broke the long hold which Sir John A. Macdonald had on Quebec, and one of his first acts was to invite the other provincial governments to join with him in a conference. His letter of invitation mentioned two questions for discussion: (1) provincial autonomy and (2) federal subsidies to the provinces. Something should be done, Mercier declared, to check the centralizing bias of the federal government and to remedy "the inadequacy and injustice" of the subsidy payments.¹ The response was gratifying. Mowat for Ontario, Fielding for Nova Scotia, Blair for New Brunswick, Norquay for Manitoba, accepted promptly. Premier Sullivan of Prince Edward Island and Premier Davie of British Columbia held aloof. But with 90 per cent of the population of the Dominion represented, Mercier could be satisfied. He had, indeed, received one marked rebuff. Sir John A. Macdonald, when invited to be present, had declined in a manner which left no room for doubt that he disapproved both of Mercier and of his conference.

The idea of a conference was shrewdly devised. There was no shortage of grievances against the federal government in any of the provinces. In Nova Scotia the policy of secession had just been advocated by the government and endorsed by the electors. In New Brunswick and Prince Edward Island the governments were desperately hard up and the people were supposed to be hostile to the national policy. British Columbia had always been at odds with the government at Ottawa. In Manitoba the Conservative premier, John Norquay, had rebelled. The great province of Ontario was ruled by "that little tyrant," Oliver Mowat, and he could be depended upon to fight the federal government.

The conference met at Quebec on October 20, 1887, and Mercier made a conciliatory speech. The Quebec conference of

¹ *Sessional Papers of the Legislative Assembly of Ontario*, 1887, No. 51, p. 2.

1864 had, he said, framed the basis of union; now after twenty years of experience, this conference ought to find remedies for the defects which experience had uncovered. Mowat was elected chairman, and after deliberating in secret for a week, no less than twenty-two resolutions were drawn up and passed by a unanimous vote. Broadly speaking, these resolutions proposed changes of two sorts: (1) constitutional reforms, and (2) a grant of better terms. The constitutional reforms — abolition of the federal power of disallowance, senate reform, etc. — were sponsored by Mowat. The other premiers regarded them with indifference. On the other hand, Mowat was not, and the other premiers were, interested in better terms. This conflict in opinion was reconciled in a manner which has become traditional. Mowat agreed to a revision of subsidies on condition that the other premiers should accept his constitutional proposals.

The subsidy revision propounded in 1887 need not be noticed. It was, of course, enacted into law twenty years later. But I should notice that the conference expressed the opinion that this revision ought to be "final and absolute and not within the power of the federal parliament to alter, add to or vary."²

The 1887 resolutions were accepted by the legislatures of all the provinces represented at the conference, and it might have been expected that they would become a significant political issue. That they did not, must be attributed to the tactics of Sir John A. Macdonald. From the beginning he saw that the conference might be a threat to his government and he set himself to discredit it. He refused to attend its meetings, he refused even to give Mercier a private interview in which to discuss the conference³, and he saw to it that no province which would accept his advice was represented by a delegation. Ontario, Quebec, Nova Scotia, New Brunswick, and Manitoba were out of his control, but Prince Edward Island and British Columbia were not. Premier Sullivan, in the former province, was a stalwart Conservative, and he

² "Minutes of the Inter-provincial Conference held at the City of Quebec from the 20th to the 28th October, 1887, Inclusive," *Provincial Conferences, 1887-1913* (Ottawa: Parliamentary Library), p. 37.

³ Sir Joseph Pope, *Correspondence of Sir John A. Macdonald*, (Toronto: Doubleday, Page & Co., 1921), pp. 399-401.

readily promised to stay away from Quebec. British Columbia proved equally amenable. Late in September, 1887, John Robson, the provincial secretary, came to Ottawa on provincial business and Premier A. E. B. Davie wrote to Sir John as follows:

[Robson] will be guided by you as to the advisability of attending the meeting [at Quebec]. We have discussed the [Mercier] telegram and fear that the real object of the meeting will be anti-Dominion, in which event, so far as we are concerned, it will be left severely alone."⁴

Sir John could not but be pleased at this evidence of friendliness and before passing on the letter to his minister of the interior, he wrote on the back: "Robson is coming in the right spirit, it appears from this note, and should be cultivated."

The aim of Sir John was to brand the conference as partizan. It could then be treated by him simply as a scheme of the Liberals. Opposition to it would become a party duty. This strategy was entirely successful. When some of the provinces did not send representatives to Quebec the analogy, which Mercier tried to draw between his conference and that of 1864, was destroyed. The Conservative press all over the Dominion ridiculed the conference, and the Conservative members of the provincial legislatures declared its resolutions to be the result of a deal between the Ontario Grits and the Quebec Rouges.⁵ The only thing which might have saved the resolutions from becoming innocuous would have been their endorsement by the leading Liberals in federal politics. But this was not given. Blake and Cartwright had denounced better terms too often and too vigorously to be able to champion proposals which sanctioned them. As a result the resolutions of 1887 had the stigma of partizanship put upon them without gaining the support of the partizans to whom they were credited.

Fifteen years later another Liberal government was in office in Quebec. Its revenues were not buoyant, and Premier Parent, after some fumbling, took a cue from Mercier and decided to call a provincial conference. The subject for dis-

⁴ British Columbia, Provincial Affairs, *Macdonald Papers, 1884-7* (Public Archives, Ottawa).

⁵ See *Debates of the Legislative Assembly of New Brunswick, 1888*, pp. 43-9.

cussion was to be provincial subsidies. The invitation was well received, and on December 16, 1902, representatives from all the provinces, except Ontario and British Columbia, met at Quebec. Both Premier Ross of Ontario and Premier Prior of British Columbia sent their regrets and declared that they did not stay away for any hostile reason. This unanimity of provincial opinion was, it might seem, a good augury. Moreover, it could not be alleged that this conference was anti-Dominion.

The resolutions agreed upon at the conference were cribbed directly from those which had been formulated in 1887. There was, however, one omission. In 1887, a strongly worded "finality" clause had been appended to the new subsidy scheme; in 1902 this clause was dropped.

The resolutions of the conference were sent to Ottawa in the hope that they would be favorably received. For a time nothing happened. Then, in 1905, two unrelated incidents stimulated the agitation for better terms. In the first place, Saskatchewan and Alberta were made provinces and they were given financial terms which aroused the envy of the older provinces. During a debate on the Saskatchewan and Alberta bills in the House of Commons, Mr. R. L. Borden, the leader of the opposition, declared that the time had come for a general revision of subsidies.⁶ Sir Wilfrid Laurier did not go so far, but he admitted that this was one of the questions which would "have to be taken up by the federal government in conjunction with the provinces at no distant date."⁷

In the second place, a crisis developed in Quebec politics. Three members of the provincial executive council resigned, among them Lomer Gouin. A peace was patched up by the resignation of Premier Parent and the elevation of Gouin in his place. But sore spots were left and harmony within the Liberal party was not fully restored. In 1905 it was essential to Sir Wilfrid Laurier that his friends be in control at Quebec. When, therefore, Gouin insisted that increased subsidies were necessary to consolidate his position, it became fairly certain that increased subsidies would soon be given.

⁶ *House of Commons Debates* (Canada), 1905, Vol. III, p. 5448.

⁷ *Ibid.*, p. 5437; for a statement by Sir Wilfrid against the principle of better terms see *ibid.* Vol. I, p. 1434.

In the fall of 1906 Sir Wilfrid made up his mind. He decided to act through a provincial conference, and accordingly, he invited every provincial premier to attend a meeting at Ottawa "to discuss the financial subsidies to the provinces."⁸ The invitation was unanimously accepted and on October 8th the delegates assembled.

The stage had been carefully prepared. Gouin was elected chairman and the delegates promptly agreed that the 1902 — that is the 1887 — resolutions contained the subsidy revision which they wished the federal government to accept. But any province which had any additional claims was asked to bring them forward at once. Premier McBride of British Columbia took advantage of the opportunity. He asked for appointment of a special commission to consider the claims of his province arising out of its geographical situation.

This was decidedly awkward. Sir Wilfrid had set his heart upon securing a unanimous agreement and he, therefore, did not wish to break with McBride. But neither could he accept his proposal, because that would mean postponement of a settlement of the subsidy question, and it might induce other provinces to present special claims. In this dilemma Sir Wilfrid shifted the responsibility. He asked the delegates (1) to declare whether or not British Columbia should have a commission, and (2) if their decision was in the negative, to act in place of a commission and to decide what additional subsidies would be a fair settlement of the special claims of British Columbia.

The conference acted upon Sir Wilfrid's request. It declared that a commission was "inadvisable"; and it expressed the opinion that, in view of the "very exceptional physical features" of British Columbia, the provincial government should be given an extra subsidy of \$100,000 a year for ten years. But McBride now refused to accept this decision and he withdrew in anger — political anger — from the conference.

Let me now summarize the subsidy scheme voted by the 1906 conference and accepted by the federal government. It provided: (1) that the 80 cent subsidy should be paid upon the actual population of each province; and (2) that the grants

⁸ *Sessional Papers of Canada*, 1906-7, No. 29a, p. 1.

for the support of government should be approximately trebled. This latter change was relatively favorable to the smaller provinces. But the former change was especially favorable to Ontario and Quebec because, in the past, the payment to them had been based upon their population in 1861. The smaller provinces gained less, because they already had the right to be paid upon the basis of their actual population, so long as this was not in excess of 400,000. Only in Nova Scotia had population reached such a figure.

This subsidy revision can be said to represent the collective wisdom of the provincial conferences of 1887, 1902, and 1906. Yet certainly the revision has been very unsatisfactory. I shall not attempt to criticize it in detail. I note only that time has proven that the smaller provinces made a bad bargain. To be sure, they had only themselves to blame, and they ought, perhaps, to assume the consequences for their mistakes. But this is just what they will not do. The blame has fallen upon the federal government. Since the federal government has had to assume the responsibility for this revision of subsidies, and since the revision as framed by a provincial conference was far from inpeccable, might not the federal government better have made its own decision?

The provincial conference of 1913 grew out of very simple circumstances. The Borden government, very shortly after assuming office, gave better terms to Manitoba and to Prince Edward Island, and it prepared to give them to British Columbia. At once the opinion got around that the time was opportune for a new raid on the federal treasury. This opinion was fortified by the existence of fiscal difficulties in most of the provinces. As a result of excessive aid to railways, the treasuries of all the smaller provinces were embarrassed. Ontario and Quebec were in sound condition, but neither Mr. Whitney nor Mr. Gouin were enemies of federal subsidies, and the former had committed his government to extensive public works which made additional revenues desirable.

It was in such circumstances that a provincial conference convened at Ottawa in October, 1913. Like the conference of 1906, it had at least the tacit approval of the federal government; and Sir Robert Borden made a speech of welcome to the delegates. Avowedly its business was the problem of maritime

representation in the House of Commons. But, at the very first meeting, the ever present question of terms came up and a committee was appointed to prepare resolutions about it.

The resolutions which resulted were notable, above all else, for the brazen manner in which certain demands upon the Dominion were stated. In 1887 and in 1906 the delegates had been somewhat apologetic; they had made excuses for themselves. But in 1913 all this hesitancy had vanished. The naked claim for better terms was put forward bluntly and without shame. It was assumed that the federal government ought properly to act as a collector of revenue for the provincial governments.

The resolutions were notable also in that they proposed a new basis for additional subsidies. Besides the existing subsidies, the Dominion was asked to give an extra grant "equal to 10% of the Customs and Excise duties collected . . . from year to year."⁹ In 1913 this addition would have amounted to \$13,321,200. It was to be divided as follows: (a) the grants for governments were to be scaled up by 50 per cent—a total increase of \$870,000; (b) the remainder—\$12,451,200—was to be divided according to population as determined by the last census. Roughly speaking, this proposal would have doubled the amount of the subsidies. Yet only six years had elapsed since the revision of 1907, a revision which had been generous and which had, besides, been declared to be "final and irrevocable."

The proposal, that a percentage of federal collections through customs and excise duties should be paid over to the provinces, has come up on later occasions. But no semblance of an argument can be adduced in its support. If a large portion of the subsidies was made dependent upon these federal receipts—customs being much the more important—every shift in the scale of customs and excises would tend to decrease or augment provincial subsidies. Provincial governments would come to have a vital interest in the framing of every federal budget, and who can doubt that they would make those

⁹ "Minutes of the Proceedings in Conference of the Representatives of the Provinces, October, 1913," *Provincial Conferences*, p. 110. The paternity of the proposal is in doubt. There is some evidence pointing to Premier Whitney.

interests felt. The serious consequences of such a situation are obvious, and they are more than sufficient to condemn the proposal. One other less important objection may be mentioned. The amounts collected through customs and excises vary yearly both because of changes in the rates charged and because of changes in economic conditions. Thus the extra subsidy, under the new plan, would have decreased from \$13,321,000 in 1913 to \$9,740,000 in 1915, from \$21,150,000 in 1920 to \$14,250,000 in 1922, from \$25,089,000 in 1929 to \$15,279,000 in 1932. This great variability would constitute a menace to the solvency of provincial governments. It thus appears that the subsidy recommendations of the 1913 conference did not measure up even to the low standard of wisdom of its predecessors.

The resolutions of the conference were formally presented to Sir Robert Borden, and at this time he made a brief speech in which he declared that "he saw no objection to the Provinces coming at stated intervals — say every ten years — to discuss and conclude any financial arrangements as between Canada and the Provinces, if circumstances warranted it."¹⁰ This statement might seem to be sufficiently qualified, but nobody familiar with the history of better terms can doubt that the delegates regarded it as an assurance that their demands would receive consideration. In any case, Sir Robert endorsed the proposition that there should be periodic revision of subsidies and that this should be done through a provincial conference. No previous prime minister had gone so far. Sir John A. Macdonald had frequently given better terms, but he had never invited the assistance of the provincial governments in framing these terms and he had never committed himself to any plan. His decisions were as flexible and as undefined as the political situation. In the main he had preferred to make subsidy alterations piecemeal, because that gave better opportunity of rewarding political friends and refusing political enemies. The attitude of Sir Wilfrid Laurier was different in two respects; he desired to curb grants of better terms, but if concessions seemed expedient, he preferred a general revision made with the advice of the provinces through a provincial conference. Thus the position taken by Sir Robert Borden in

¹⁰ *Ibid.*, p. 115.

1913 was both like and different from that of his two great predecessors. He accepted the provincial conference as the instrument through which policy about better terms might be determined, but he did not intend to put a check on periodic revisions; and he was willing to consider periodic revisions without the assurance that his political friends would get the favors.

The expectation of the provincial governments and the forecast of many political observers, that the conference of 1913 would be followed by a grant of better terms, was frustrated by the outbreak of war. The federal treasury was, for many years, to be in no position to assume unnecessary burdens.

In my attempt to sketch the background of this conference I should repeat that I am concerned only with the question of subsidies. I shall, therefore, concentrate attention upon the Duncan Commission and the natural resources agitation.

As everyone is aware, the agitation of the maritimes for better terms and the agitation of the prairie provinces about their natural resources had long been associated. The federal government was bound to be chary about granting concessions to the one group without granting something to the other. But in 1926 the King government, in an attempt to regain some of the support it had lost in the maritimes, appointed the Duncan Commission. And this Commission soon made a report which was favorable beyond all expectation to the claims of Nova Scotia, New Brunswick, and Prince Edward Island. At once there was a rumbling in the west. The report of the Duncan Commission threatened to sever the connection between the two agitations. If the maritimes got better terms, might it not happen that the claims of the prairie provinces would be indefinitely shelved? This prospect the western members of the cabinet were not prepared to face.

The result of this schism was that the King government accepted the subsidy increases recommended by the Duncan Commission with a very significant reservation. The increases were to be granted only for a year and a decision about the future was to wait upon the advice of a provincial conference which would be called together during the summer. What lay behind this reservation? What did Mr. King hope to accom-

plish through a provincial conference? The aim was, of course, to re-establish the link of connection between the claims of the maritimes and the claims of the west. The maritime delegates would come to the conference conscious that their better terms would be endangered unless the western delegates were appeased. The western delegates, on the other hand, had to recognize that the report of the Duncan Commission was an established fact and that opposition to it should only be carried far enough to secure maritime acquiescence to a settlement of the natural resources question.

When, therefore, the conference met at Ottawa in November, 1927, it was easy for the two groups to scratch one another's backs and to conclude that the best solution would be for the federal government to make concessions all around. The western delegates agreed to allow the federal government to pay better terms to the maritimes, i.e. the subsidies of the Duncan Commission; the maritime delegates agreed to allow the federal government to give better terms to the western provinces, i.e. to return their lands and to continue their land subsidies without diminution. In ordinary parlance, this might seem to leave the federal government holding the bag. But the federal government was not unwilling. Its revenues, as a reflection of the general prosperity of the Dominion, were distinctly buoyant. Besides, it was not free to play one section against another. After the report of the Duncan Commission, it had to give something to the maritimes and it was prepared also to take a "generous attitude"¹¹ towards the demands of the west.

¹¹ Detailed written evidence about the course of events at the conference is not yet available. My interpretation rests in part upon information secured by interview, and in part upon deduction. The following statement made to the House of Commons by Mr. King is fairly explicit: 'We [the government] were pleased to find that without exception the premiers of all the provinces were at one with the federal administration in having adopted the course which we did adopt in voting the grants . . . to the maritime provinces, and in saying that . . . the maritimes should continue to be treated in like manner until at least the accounting period which is asked for by the Duncan report has been completed . . . Similarly in regard to the western provinces, we found, on the part of our friends from the maritimes . . . a distinct willingness to have the federal government, in the matter of dealing with the prairie provinces, take what may be described as a generous attitude. They seemed to feel

Looking back, it is difficult to discover how the public interest was served by this procedure. The concessions made by the federal government were the maximum which could have been expected. If it had acted, with respect to the subsidy recommendations of the Duncan Commission and the natural resources claims of the west, upon its own responsibility and without the mediation of a provincial conference, it could hardly have arranged a worse, and it might have arranged a better bargain. At every provincial conference there is a temptation for all the provinces, or for a group of them, to join in making subsidy demands upon the Dominion. Sir John A. Macdonald foresaw this danger in 1887 and he, therefore, attempted to discredit the first provincial conference. Even when one or two provinces are not interested in better terms, they have little incentive, in such matters, to oppose the wishes of the rest. In short, provincial conferences have served, and may serve, as a medium for focusing and strengthening the individual demands of the provincial governments for better terms.

But let me assume that, for some reason other than the importunity of the provinces, a general revision of subsidies is to be made. Ought the federal government to ask for and rely upon the advice of a provincial conference? I have tried to make clear that, in the past, no wisdom about subsidies has come out of a provincial conference. And it is not difficult to find reasons why this should be so. In drawing up a scheme of subsidies, a provincial conference is wholly without responsibility. It does not have to defend the scheme in parliament; it does not have to administer it; it does not have to raise the money which it proposes to spend. The individual delegates are interested only in ensuring that their province gets its share of the favors. There may, therefore, be some bickering

that the government might well consider, what, in arranging for the transfer of their resources to the prairie provinces, had been one of the main difficulties up to the present time, namely, the advisability of continuing, along with the return of the lands, the subsidies which up to the present time, had been paid in lieu of the lands. The moment that attitude on the part of the other provinces became apparent to the administration, we found we were in a position to negotiate with the prairie provinces on a basis much more satisfactory than had existed before . . . ' *House of Commons Debates* (Canada), 1928, Vol. I, p. 44.

over the division, but there can be no rational consideration of the vital issues. Under such circumstances a wise decision is almost certain not to be reached.¹²

There is no constitutional reason why a provincial conference should be consulted about subsidies. As everybody knows, the federal government, on its own responsibility, made numerous revisions of subsidies before 1906. In that year Sir Wilfrid Laurier established a precedent by asking a provincial conference to give advice about a subsidy revision. His aim was to carry into execution a very desirable reform. This reform was finality in the matter of better terms. By assenting to a scale of subsidies approved by the conference, and by securing the unanimous consent of the conference to a "finality clause," he hoped to end the interminable round of begging expeditions to Ottawa. Of course his plan miscarried. The conference did not reach unanimity, and even those provinces which did assent to a finality clause refused to abide by it. Thus the gains which Sir Wilfrid expected to achieve by his new precedent did not materialize. Yet provincial conferences have continued to offer, and they have sometimes been asked to offer, advice about subsidies. In this field of federal-provincial relations only bad precedents survive. Good ones sink out of sight. If, as seems inevitable, the entire subsidy system should sometime be overhauled, the federal government ought to make its own plans on its own responsibility.

¹² At the 1927 conference, Mr. Robb, the federal minister of finance, made the following remarks: "The recommendations of the provinces are double-edged. First, there is the demand for increased expenditures by the Dominion Government, and on the other hand that we should withdraw from certain fields of taxation and revenue. Recommendations have been made that subsidies should be increased, that certain expenditures for varied means of transportation should be undertaken, that the old age pensions should be at the sole expense of the Dominion Government, etc. On the other hand, it has been urged that the Dominion should withdraw from the income tax field and other direct taxation sources, that we should reduce the customs and excise duties on liquors, etc. I have not made a minute calculation, but off-hand would estimate that the varied recommendations involve either in expenditure or in the tying-up of sources of revenue, one hundred millions of dollars annually." *Precis of Discussions, Dominion-Provincial Conference, 1927* (Ottawa: King's Printer, 1928), pp. 33-34.

I have, in another place, attempted to point out that the essential preliminary to any scheme of subsidy reform is that the major political parties agree to a moratorium on "better terms." In the past whenever one party has turned a deaf ear upon the demands of a provincial government for readjustment of subsidies, the other political party has customarily hinted that it would be more complaisant. This tradition will die hard. But both Conservative and Liberal leaders should realize that some sort of self-denying ordinance would be mutually advantageous in the long run. Whenever this first step is taken, the real problem of subsidy revision can be attacked. It may well be that a satisfactory solution cannot be found except as part of a general overhauling of our constitution which would bring about a redistribution of functions between the federal and the provincial governments.

In this connection I wish to point out a very important reason why the federal government should not relinquish to a provincial conference any portion of its control over subsidy revisions. Constitutional reform must wait upon provincial consent. To gain that consent and to reconcile the conflicting interests of the provinces, the bait of better terms might be used by the federal government. This bait has been used on many occasions for partizan and sectional purposes. It could, I suggest, be used constructively to promote the national welfare.

ROUND TABLE CONFERENCES

AGRICULTURAL CREDIT

J. D. MACLEAN, *Chairman*

R. P. BAKER.—It is universally admitted that the purchasing power of the Canadian farmer must be restored before there can be any general return of prosperity in this country, inasmuch as agriculture occupies such a vital position in our national economy. This purchasing power can only be restored by a definite rise in commodity values, a goal that more than one government has been striving for during the past two years or more.

The contraction of farm purchasing power has had its effect upon all industry throughout the country, as replacements of machinery and equipment, and even necessary repairs have had to be postponed. Revival of this vast purchasing power will revitalize all Canadian business. Production today is based upon entirely different cost factors than in 1929 and consequently it is unnecessary to contemplate a return to anything even approaching the peak level of prices in order to have a prosperous agricultural community. It is well known that our farmers have adopted modern fashions, due largely to the pressure of falling prices, and have learned the fine art of economy as never before. There is greater efficiency on our farms today than at any time in the past and yet a great many farmers — good farmers — have been unable to realize sufficient cash income to meet essential carrying charges. Many farmers have assured me that they will be far more prosperous in the future with dollar wheat and proportionate prices for other produce than they ever were when they received two dollars a bushel and more for their wheat. Be that as it may, the stern fact remains that prices have not yet risen to a point which will cover costs of production and allow a fair profit and we must consider our farm problem as it exists today. It is difficult to escape the conviction that the farm industry throughout the world has been over-expanded in recent years, and it is a world-wide phenomenon that our food production employs a decreasing proportion of our population. It is clear that we are faced with a tremendous, complicated economic problem, which cannot be solved overnight, but which can be solved by the application of sound business principles, considerable patience, and some help from the country as a whole.

Let us, first of all, consider what has happened to agriculture in this country during the past few years. According to figures submitted to the Royal Commission on Banking it appears that farm income in the three Prairie Provinces declined in a period of four years, from 1928 to 1932, by 67½ per cent: or in actual dollars a drop of \$570,000,000. During the same period the records show that farm income in the Province

of Ontario showed a shrinkage of 63 per cent or more than \$700,000,000.¹ These figures are rather staggering and it is little wonder that we regard our farm problem as acute.

It is recognized that we must restore an equilibrium between prices and costs, and even a superficial examination of the problem leads us directly to the question of farm credit, which is the subject of this paper. During recent years it has been customary to consider agricultural credit under three separate and distinct classifications, known as "short," "intermediate," and "long term" credits. It seems to me, however, that the farmer really requires only two types of credit, namely, "long term" or mortgage credit; and self-liquidating loans for production and marketing purposes, which must be for comparatively short periods.

Short term or liquid credit is generally speaking, a banking proposition as it involves advances for a period of say, three to six months. During recent difficult years, mortgage lending institutions have found it necessary to provide a considerable amount of temporary accommodation for their own borrowers but this is obviously a burden that the mortgagee should not be called upon to assume. It is essential that suitable facilities should be provided to enable a farmer to carry on operations from seeding to harvest, as advances are required from time to time for seed grain, feed, labor, binder twine, etc. It strikes me as being strictly a banking function and entirely feasible for our chartered banks to handle but if our banks cannot see their way clear to provide this accommodation it will be necessary to provide other facilities to fill the need.

Intermediate credit, is intended to cover accommodation for a longer period than the ordinary banking transaction, but somewhat less than the usual short term mortgage of five years. It would be reasonable to suggest that by intermediate credit we mean advances for a period of say six months to three years. Such advances may be required for purchases of stock or equipment, or many other purposes, and are sometimes secured by non-perishable farm products, implements or other chattels, although personal security is frequently acceptable on this type of accommodation. Then again a second mortgage on the real estate is sometimes pledged as security. I must confess that I am not at all convinced of the need for intermediate credit, but if it is shown that the demand is sufficiently widespread, I am sure that much useful information could be obtained from the Dominion Agricultural Credit Company, as to the best method of handling this type of credit.

This brings us to a consideration of long term credit, which, for all practical purposes, includes all mortgage loans on the security of farm properties, for terms of five years or more. As a rule, mortgage lending institutions prefer to enter into mortgage contracts for a period of five years — a practice which resulted from the passing of the Orton Act

¹ *Report of the Royal Commission on Banking and Currency in Canada* (Ottawa: King's Printer, 1933), p. 70.

about the year 1880, which gave a mortgagor the right to repay a loan in full at the end of five years with a bonus equivalent to three months' interest, or three months' notice—but as an overwhelming majority of the loans are renewed from time to time it is perhaps fair to say that the life of an average mortgage is probably fifteen or twenty years, or even longer.

The one essential difference between these five-year mortgages, renewed periodically, and the long term contracts adopted under government loaning schemes in this country, is in the rate of interest charged. This varies from time to time according to the rates paid by the lending institution and the general condition of the market for funds. The net result is, of course, that some borrowers pay a higher rate than others due to the accident of time of maturity, but it does not mean that the lending institution enjoys a higher ratio of profit.

As you probably know the Canadian Farm Loan Board issued mortgages on a twenty-three year and thirty-two year plan at rates ranging from 6½ to 7 per cent. The Manitoba Farm Loan Board, which was replaced by the Canadian Farm Loan Board in 1929, adopted a thirty-year amortization basis with rates ranging from 6½ to 7 per cent. Under this plan the borrower can pay off at any time after five years. A thirty-year amortization plan, with a rate of 6½ per cent, was adopted by the Saskatchewan Farm Loan Board, while the banner Province of Ontario, through the Agricultural Development Board, rather than lose the banner, granted loans on the amortization plan limited to twenty years at a rate of 5½ per cent.

Just here I would like to draw your attention to the figures placed before the Banking and Commerce Committee a year ago which shows the aggregate amount of farm mortgages in Canada at that time to be \$677,564,100, and the total amount loaned under the various plans mentioned above to be slightly over \$60,000,000,² or less than 10 per cent of the total.

With your permission I will plunge directly into a discussion of the question of long term credit without attempting any historical sketch covering the activities of mortgage lending institutions in this country. Suffice it to say in passing, that a study of the record will convince even the confirmed skeptic that these institutions have made a most valuable contribution toward the development of this country to date. But periodically there is a great agitation throughout the country for cheaper farm credit, due to misconception as to the basic soundness or suitability of plans inaugurated in other countries under which farmers are granted credit at rates somewhat less than those prevailing in this country.

We are told that co-operative credit societies, operating in Europe, are the last word on this problem of farm credit and consequently similar

² *Proceedings and Evidence of the House of Commons Select Standing Committee on Banking and Commerce, 1933* (Ottawa: King's Printer, 1933), April 4, p. 81.

methods should be adopted here. We are confronted by a bewildering variety of schemes, but I will only attempt in passing to refer to one or two that are most prominently mentioned by students of this intensely interesting problem of agricultural credit.

One of the best known co-operative credit societies in Europe is the German Landshaften. It is interesting to observe that this organization is empowered "to seize the estates of defaulting debtors without notice or order of the court, to administer them compulsorily, or to call for a legal compulsory sale of the properties. Any net balance on sale goes to the debtor." I leave it to you to decide how this would appeal to the Canadian farmer.

You are, no doubt, thoroughly familiar with the efforts made during recent years to revive agriculture in Germany. The post-war currency depreciation wiped out a generous proportion of the debt of farmers, but it was soon discovered that while agricultural activity was apparently flourishing during the inflationary period it had been operating with deficits, and inflation consumed the working capital. The agricultural emergency program of the Federal Ministry for Food and Agriculture is still in operation and it is perhaps too early to judge the efficacy of the plan. The fact that stands out most prominently is, of course, the practical impossibility of providing new credits due to loss of confidence. Federal aid became essential.

Many students of agricultural credit believe that there is a lesson for Canada in the experience of Denmark in reviving the basic industry of agriculture. It will be recalled that in the eighties of the last century Denmark was faced with the complete collapse of the farming industry and there can be no question of the success of the comprehensive plans adopted at that time to bring about complete rehabilitation. Some writers insist that the experience of Denmark represents the most complete agricultural recovery in history and certainly the record is rather convincing. It is questionable, however, whether such an ambitious scheme could succeed in this country owing to the fact that conditions are scarcely comparable. For the purpose of this discussion I will make reference only to that section of their program relative to farm credit. It must be borne in mind that farmers completely dominated the country within a comparatively short time so that it was possible for them to carry forward with little or no opposition, all plans conceived that were considered beneficial to the farming community. Having achieved a working relationship between primary producers and ultimate consumers, a firm foundation had been laid upon which they were able to build a new economy; in fact a new society. It is only logical that their plan of a co-operative commonwealth ruled by farmers, should include co-operative credit organizations, starting with small co-operative banks in farming communities, which, in turn, expanded into a central bank, a bank of rediscount at Copenhagen. This central bank mobilized the credit resources of the farmers and utilized them exclusively for farmers' needs. In addition there was what they called a baby bank which loaned freely to farmers for current needs. The story is, as you know, a fas-

cinating one, but I have been unable to convince myself that such a scheme would prove highly successful in this country, unless perhaps on a greatly modified basis in particular communities. It is hardly conceivable that such a plan could be made to work in a country with such a vast area and with the diversification of activity we have in this Dominion. Even among our farmers it would be very difficult, if not impossible, to secure the degree of co-operation essential to success as our people are individualistic and are largely prejudiced against any new schemes suggested. This is not, however, an insuperable barrier and it is possible that something of the kind might work if the need were sufficiently pronounced.

At times our people turn their eyes toward our great neighboring nation to the south, which seems to thrive upon experiments, but I must confess my inability to discover in any of their plans, thus far, any scheme that would be an improvement upon our present facilities. As you know, they appoint special committees from time to time, to investigate new projects and the following extract from the report of one of these committees is significant, "The Committee was unanimously of the opinion that it would be in the best interests of the State to cease conducting a farm loan business."³

Our American cousins have tried several farm credit plans during the past twenty years, such as the Federal Land Banks organized in 1916; the Federal Intermediate Credit Banks, about 1923; and others of possibly less importance. A year ago all farm credit agencies owned or controlled by the Federal government were consolidated into one organization known as the Farm Credit Administration. This organization is expected to handle approximately \$4,000,000,000 of farm credit. Regional units of this new organization are being established in each of the twelve Federal Land Bank Districts, and each unit will comprise a Federal Land Bank; a Federal Intermediate Credit Bank; Production Credit Corporation; and Bank for Co-operatives. These are regarded as being permanent organizations and they are charged with responsibility for supervising whatever emergency farm financing, circumstances may make necessary in the future. The first objective of these organizations is to get the farmer out of debt — a simple task.

The Emergency Farm Mortgage Act of 1933 is helpful to the farmer inasmuch as rates of interest are reduced to 4½ per cent for the next five years. This applies to all existing loans, together with any loans made before the 12th of May, 1935. The rate charged by the Land Banks during the same period will be 5 per cent — government money of course. The Land Banks are authorized to grant loans for the following purposes: purchasing new land for agricultural purposes, to purchase equipment, livestock, etc.; to provide improvements such as new buildings, etc.; to repay debts incurred prior to the first of January, 1933; and to

³ Report of the Special Committee of Senate and House of Representatives investigating State Agricultural Credit, 1915.

provide working capital for the farm business. The maximum loan that can be authorized is \$50,000, but preference is given to loans of \$10,000 and less. Loans are not to exceed fifty per cent of the appraised value of the land plus twenty per cent of the value of permanent insurable buildings. It is of interest to note that values are determined on the basis of earning power, taking average yields over a period of the last five to ten years, and at prices prevailing in the 1909-1914 period, which Congress has declared as normal. As a matter of fact the Agricultural Recovery Act postulates certain desirable prices for the principal farm products, these being the average for the pre-war period 1909-1914.

While the Land Banks lend on first mortgages only, the sum of \$200,000,000 was appropriated, under the Emergency Farm Mortgage Act of 1933, to assist in the adjustment of debts. This amount is under the control of a Land Bank Commissioner, and may be advanced on the security of second mortgages for purposes of refinancing farm indebtedness; furnishing working capital; and to enable farmers to redeem farms foreclosed since the first of July, 1931.

There seems to be commendable co-ordination between these two organizations, and a farmer in distress can secure from the Land Bank a loan of say, fifty per cent of a reasonable value of his farm subject to the limitations previously mentioned, and say, twenty-five per cent additional from the commissioner, which combination enables him to satisfactorily refinance his indebtedness. In many cases of excessive debt the creditors must co-operate by scaling down debts.

Before dismissing the question of the experiences of other countries in the field of farm credit, I would like to focus your attention upon one or two statements emanating from the League of Nations, which appeal to me as being rather interesting. In view of the fact that we are frequently told that the European countries know how to grapple with this problem, I was surprised to learn that during comparatively recent years the situation has become so acute there that the League of Nations instituted an investigation. The financial committee of the League concluded that "nothing would be more helpful in starting this flow of capital which would be so beneficial from all points of view than measures which would create the feeling of confidence which is at present lacking."⁴ The League's Committee suggested the formation of an International Agricultural Credit Company, and among other recommendations included the following:

1. The interested countries should subscribe to the Company's reserves.
2. The interested countries should provide extensive exemptions in taxation, including taxes on the Company's "capital, income, reserves,

⁴ First Report of the Financial Committee of the League of Nations, *International Agricultural Mortgage Credit Company — Convention, Charter and Statutes* (Geneva: League of Nations, 1931), p. 6.

holdings, deposits and debts due to it, together with the interest earned thereon and its profits."

3. When, for any reason, the Company considered that sufficient security was not enjoyed in a country, the government of that country should guarantee the loans.⁵

The governments were enjoined to pass satisfactory and uniform legislation for foreclosures, and if there should be any reason why foreclosure should not take place, then the burden of loss should be borne by the government: it should not be shifted from one set of human shoulders to another.

The first experiment in Canada with Co-operative People's Banks seems to have been the "Caisses Populaires" in the Province of Quebec, and while I know little of the operations of this organization I am informed that it has been reasonably successful. The conditions making possible the success of such a scheme were present in the Province of Quebec as in no other province in Canada. Each bank operates in a small restricted area where the personal character and integrity of prospective borrowers are well known, so that the risk is reduced to a minimum. According to information contained in the report of the Royal Commission on Banking and Currency in Canada the rates charged on mortgage loans to borrowers—largely farmers I believe—ranged from 5 per cent to 8 per cent with the average somewhere between 6 per cent and 7 per cent. While an extension of this principle throughout Canada may be of value, it is hardly likely that such a move would result in cheaper money over a period than provided by existing organizations.

We have already tried several experiments with farm credit in this country, beginning with the efforts put forward in British Columbia about the year 1898. The first attempt failed simply because the farmers declined to accept the co-operative principle in it. As already mentioned there have been several other plans introduced since the first abortive attempt in British Columbia, but none have been as helpful as had been hoped due to the fact that basic conditions in this country differ in many essential respects from those in the countries from which the farm credit ideas were borrowed. In this connection the following excerpts from a report submitted to the parliament of Canada in 1925 on the subject of Agricultural Credit is of interest. "There can be no doubt that the establishment in Canada of a short term credit system based on the formation of local associations for co-operative purposes would be much more difficult than in most European countries or even in the United States. The uniformity of population and the permanency of family relations create in these countries the exact conditions under which co-operative methods flourish." A few years ago Dr. H. M. Tory made a most exhaustive study of this subject of farm credit and I would like to mention two or three observations included in his report to the government of Canada. In reference to the provincial farm loan schemes he made this illuminating observation "most of the money has been used

⁵ "Convention," *ibid.*, pp. 16-36.

in refunding accumulated debts.”⁶ Another quotation is as follows: “It is an unfortunate fact that most of the organizations described have for the moment, ceased to function because of the difficulty of obtaining money at sufficiently low rates of interest and because of the danger of embarrassing the Provinces by increasing too greatly their bonded indebtedness.”⁷ And again: “In all the Provinces the boards of management have had difficulty in overcoming a disposition on the part of a considerable proportion of borrowers to regard lightly obligations to the government. ‘It is government money, they can wait,’ seems to be altogether too common an idea.”⁸

It is possible that I may be too close to the picture to give an unbiased opinion, but I must say quite frankly, that I do not believe co-operative credit organizations will provide mortgage money at lower rates. Our farmers are individualistic, and while sympathizing with his neighbor, he will, if his farm is clear of debt or he is making satisfactory progress, decline to guarantee his neighbor’s loan. It is not a reasonable proposition, and while it may work in isolated districts, the chances of success over a broad field are, in my judgment, exceedingly slim.

Furthermore, I am not at all convinced that an extension of present government loaning schemes is desirable from the standpoint of the country as a whole. You may recall that the Royal Commission on Banking and Currency stated in its report that “the fact that the Provincial Governments decided to engage in these experiments may well be taken as indicating the necessity of Agricultural Credit at lower rates of interest than prudent banking practice might seem to warrant, particularly in certain areas where agricultural production is attended by certain hazards or requires loans of a length which militates against the affording credit by Commercial Banks.”⁹ So far as the argument of providing cheaper money is concerned, it is manifest that the experience of government lending agencies has not shown that the results obtained have warranted the effort and expense involved. As to the other argument of providing funds in districts where private lending agencies fear to tread, I leave it to you as to whether or not the government is warranted in encouraging agricultural development in districts that are regarded by the more experienced private lenders as unduly hazardous. We do not criticize this experiment from the standpoint of competition as we have not objected to the competition in districts where many companies operate but I simply raise the question in order that you may give some thought as to the wisdom or otherwise of encouraging develop-

⁶ H. M. Tory, *Report on Agricultural Credit* (Ottawa: King’s Printer, 1924), p. 69, printed as Sessional Paper No. 142, *Sessional Papers of Canada*, 1924.

⁷ *Ibid.*, p. 83.

⁸ *Ibid.*

⁹ *Report of the Royal Commission on Banking and Currency in Canada*, p. 70.

ment in fields that may not be profitable from a national standpoint for many years to come. Loan, trust and insurance companies have not hesitated to pioneer in the past and it may safely be assumed that they will not lack courage and initiative in the future, always provided they are assured of fair treatment.

Incidentally, I might mention that there are many districts in the west that should never have been farmed, and should be allowed to revert to ranch land. This would necessitate a major operation and the cost of transplantation should be largely borne by the country as a whole as it would be in the national interest. In future, the classification of land might well be the responsibility of the government, as new settlers undoubtedly need guidance.

So long as the farmer is kept in a perpetual state of poverty the world cannot recover its economic balance, and it is at such a time as the present that government credit can and should be used to ease the situation, merely as a temporary expedient. Existing government lending organizations might be utilized to correct the serious situation that has developed in certain localities, particularly in the prairie provinces where, in many cases, farm debts are intolerable at the present level of commodity values. Under the influence of natural economic forces it is perhaps fair to assume that there will be some reconciliation as between debts and commodity prices, but even so, many farmers require adjustment of their debts. As a general rule the mortgage debt in itself is not an insuperable burden, but other debts have piled up to such an extent as to discourage many good farmers.

I have endeavored to deal with this problem of farm credit under reasonably normal conditions but it is impossible to ignore the existing situation which must be regarded as an emergency. No figures are available to indicate the extent of the distress in our farming communities, but it is probable that only a comparatively small percentage of our farmers have debts in excess of the value of their farms, even on a valuation based upon production capacity at prevailing prices. There must be some adjustment of debts in extreme cases, but it is essential that priorities be recognized in any composition of farm indebtedness. It is highly desirable that adjustment of debts that are obviously too heavy, should be accomplished without delay, but unfortunately it is necessary to remove certain obstacles in the nature of restrictive legislation before progress can be made in this direction. Furthermore, it should be possible to arrange consolidations of arrears and modify terms of repayment in many other cases, providing the government will take a realistic attitude in the present circumstances and grant reasonable protection in connection with any amounts consolidated.

Having rejected the two possible methods of providing credit for our farmers at reasonable rates, co-operative plans and an extension of government loaning schemes, which are the only alternatives to our present system worthy of consideration at the moment, we are forced to examine our present set-up in order to discover what is wrong. Well, what is wrong? The only criticism I have heard is that the rates of interest

charged by loan, trust and insurance companies are too high. Complaints against the methods and practices of these great institutions are rare, and would be still less if we did not have so many ambitious politicians who have never taken the trouble to study even the elementary principles of economics. But let us examine for a moment this question of interest. There are four prime factors constituting the interest rate to be charged on mortgages, as follows: (1) Cost of borrowing money, (2) Overhead Cost, (3) Loss Factor, and (4) Profit to Lender.

Accurate figures as to the cost of borrowed capital are not available but in the case of one large loan company which exercises a great deal of care in determining costs, I find that the average cost of funds borrowed by way of sale of debentures in Canada during the past ten years, ranged from 5.218 per cent to 6.099 per cent with the average over the ten year period 5.68 per cent, while the cost of money accumulated through savings deposits ranged from 4.658 per cent to 5.547 per cent with a ten year average of 4.94 per cent. You understand, of course, that savings deposits represent a small percentage of the total funds invested with loan and trust companies and it is necessary for the companies to keep a fairly large proportion of these funds in readily realizable assets, so that the opportunities for profit are quite limited. During the same period the cost of all borrowings proved to be from 5.082 per cent to 5.915 per cent with a ten year average of 5.49 per cent or practically 5½ per cent. This rate covers interest paid and overhead charges attributable to the acquisition and handling of the borrowed capital, but does not of course, include any overhead charges incidental to the investment of these funds.

Illuminating figures, with respect to the overhead cost of investing in mortgages are supplied by the same large company which is, as I have already stated, a representative one. The overhead cost incidental to mortgage loans over a ten year period is shown to be .921 per cent. This overhead cost is declining at the present time due to economies in management, such as lower salaries, rentals, travelling expenses and so forth, despite the fact that heavier arrears require more intense concentration on collections. Another factor in the decline is the absence of any considerable volume of new loaning and consequent elimination of much of the initial expense on new business such as commissions, etc. For all practical purposes it would probably be fair to assume an overhead expense incidental to investment in mortgages of ¾ of 1 per cent. You will appreciate the fact that in order to keep the expense down to this basis it is necessary to handle a fairly large volume of business and in the case of the company whose figures I have used, I may say that the total amounts involved are fairly substantial; exceeding, for example, the total amount invested by the Agricultural Development Board of the Province of Ontario.

Due to the long, honorable record of our Canadian loan, trust and insurance companies, it has been possible to borrow money from the public, at lower rates than any organizations, other than governments. At times, these institutions have borrowed at even lower rates than

governments, which is an eloquent tribute to the high quality of security offered. Over a protracted period, however, it is perhaps fair to say that these companies, particularly loan and trust companies have to pay possibly $\frac{1}{2}$ of 1 per cent more than the rate at which the Dominion government can borrow. The average rate being paid on the net debt of Canada as at 31st March, 1932, was 4.97 per cent and on 31st March, 1933, 4.68 per cent, while the average rate paid by the corporations, other than the railways, on funded debt, was 5.49 per cent. It is reasonable to suppose that the average rate being paid under existing contracts by loan and trust companies on borrowed money is approximately $5\frac{1}{4}$ per cent. To this cost must be added the overhead expense incidental to mobilizing the funds and also the expense of investing in mortgages. The latter item of expense varies considerably according to the locality, due to inspection costs, etc., but in any event, this expense would scarcely be less under any government scheme. The overhead cost of borrowing and lending has been variously estimated by the different companies but it is probably not less than 1 per cent or more than $1\frac{1}{2}$ per cent, a reasonable average being $1\frac{1}{4}$ per cent. If, therefore, a company must pay an average rate of $5\frac{1}{4}$ per cent, it is obvious that a return of $6\frac{1}{2}$ per cent on a mortgage allows nothing for losses or profit. Economies in management or a considerable volume of investments in a single loaning field, may enable a company to reduce the overhead cost but it would be unreasonable to suppose that the cost could be cut below 1 per cent. In the sparsely populated prairie provinces the administrative costs are unusually heavy, due to the comparatively long distances to be covered in making inspections; the need for close supervision; the uncertainty of returns, due to climatic and other natural difficulties; and so forth. According to figures submitted to the Banking and Commerce Committee of the Dominion House a year ago, the average rate being charged on farm loans in the three prairie provinces by thirteen representative loaning corporations was 7.38 per cent. Having in mind the higher expense ratio in the prairie provinces, it will be readily seen that the margin provided to take care of losses and provide a small profit is indeed a narrow one. It would be not only confusing, but also possibly misleading to quote a great variety of figures to show the relatively heavy cost of investing in farm mortgages, and I will therefore simply point out that a company investing say, \$10,000,000 in Montreal and a similar amount in western Canada, spread over thousands of square miles, would have an exceedingly low overhead cost in Montreal and a correspondingly heavy overhead cost in the prairie provinces.

The ratio of delinquency in connection with western farm loans has always been considerably in excess of that in eastern loaning fields and this is a further fact militating against lower interest rates for the western farmer. In short, the rates of interest charged from time to time have been determined as a result of economic considerations and I have no hesitation in venturing the statement that, while some government organizations have been able to provide credit for the farmer at lower rates of interest than those charged by our large lending institu-

tions, this has only been possible by bonusing at some point. In other words, I am fully convinced that the Province of Ontario cannot provide loans to farmers at a $5\frac{1}{2}$ per cent rate on an economic basis, nor can the Province of Saskatchewan, for instance, furnish loans at a $6\frac{1}{2}$ per cent rate, and charge all proper expenses to the farm loan organization, including rates paid by the province for the money, together with the cost of securing the money; all legitimate administrative expenses, and reasonable provision for losses. As a matter of fact, you probably noticed a report in the *Financial Post* early this month which indicated that the Saskatchewan Farm Loan Board had already suffered losses of roughly \$4,000,000 on business capitalized at the end of 1933 at slightly over \$17,000,000. If this be a fair statement, we are faced with two alternatives. Either the governments must recognize that they must continue this "sop" to the farmer, and deliberately set forth to bonus our basic industry of agriculture — a dangerous path to follow — or they must conclude that economics must ultimately determine the country's policy, in which event it will be admitted that the great institutions that have provided mortgage credit in the past — after serving the country splendidly for almost a century — have been treated shamefully by some of our governments.

For the benefit of those who are inclined to the opinion that lending institutions reap a rich harvest on borrowed capital I would suggest a very simple test that will prove that this is not the case. Take a rate of say, $5\frac{1}{2}$ per cent on the amount of shareholders' capital, which is surely not an exorbitant rate considering the service rendered, and deduct this amount from the total net profit shown by any of the companies over a period of years. The difference represents the profit earned on borrowed capital and I feel certain that the result will startle you, as it will indicate an extremely low margin of profit on these funds. It is only by acquiring a considerable volume of funds that any profit can be realized, which proves rather conclusively that borrowers have been securing mortgage accommodation at the minimum rates that can be justified on a strictly economic basis. The actual distributions to shareholders by way of dividends has frequently been considerably less than $5\frac{1}{2}$ per cent on the total of shareholders' capital. Lest some may discount this statement in the belief that reserves have been largely accumulated out of profit I would add that a fairly large proportion of the reserves of these companies represents actual cash contributions on the part of the shareholders in purchasing new stock from time to time at a premium, the amount of the premium being added directly to the reserve fund. Then again, we must consider the position of investors who purchased stock in the open market at prices that yield dividends today at rates less than those available on ordinary savings accounts. These people were in no sense speculators. They invested in a type of security that had been thoroughly tested over a long period of time and had emerged from periods of prosperity and depression alike, stronger than ever. Some of our governments have, in a very real sense, betrayed these investors, as their losses are to a great extent, due to legislation that

has encouraged default, if not repudiation, of debts. Let us remember that it is after all, the sense of justice that is one of the greatest ties in the British empire today.

Our institutions possess the fundamental elements of stability, but they are dependent upon the integrity of contracts for their soundness and security. It is doubtful if a greater sense of responsibility as trustees, exists anywhere, than we find in our Canadian loan, trust and insurance companies, and it will, I believe, be readily admitted that our financial leaders have continued to exercise prudence and common sense in meeting the many new and perplexing situations arising out of world conditions without parallel in economic history.

Perhaps the most difficult and discouraging situation confronting the mortgage lending institutions in this country today is the persistence with which some governments seek to ameliorate the suffering of certain classes of debtors, apparently oblivious to the fact that they are merely transferring the distress to other and larger groups of our citizens. The utter futility of attempts to wipe out debts by legislation has been demonstrated so often that it should be unnecessary to argue the point. Nevertheless it is evident that many people — some holding positions of responsibility — still believe that various forms of moratoria legislation are not only desirable but necessary in an emergency such as we have been facing in common with the peoples of other countries for the past two or three years, and I feel that you would expect me to discuss the question briefly at this time.

It should be pointed out that insurance, loan and trust companies provide the bulk of the funds for mortgage loans, without which any kind of community development is virtually impossible. We must, of course, maintain a just balance between our responsibilities as creditors and debtors — we are both in almost equal degree — but our institutions have no right whatever to sacrifice the interests of policyholders, depositors, debenture-holders, beneficiaries under estates or even shareholders in any essential modification of its contracts. Let me emphasize the fact that we all share the feeling of genuine sympathy with mortgagors who find their ownership of property jeopardized as a result of their inability to meet their obligations. We strive to preserve ownership of properties by borrowers, and it has frequently been pointed out that the good sense of the lender impels him to extend the utmost leniency to embarrassed debtors during periods of stress — particularly when the lender happens to be an institution — as the last thing an institutional lender wishes to do is acquire property. This is a plain statement of fact that will not be challenged. Consequently a farmer who, with his family, knows the potentialities of his farm and is prepared to work hard and make some sacrifice in order to protect his home, requires no legislation to protect him from his creditors, as it is distinctly in the interest of the mortgagee to exercise the greatest possible patience with a good borrower who is temporarily unable to meet his obligations. It is fair to say that an overwhelming majority of our people want to pay their debts in accordance with contracts entered into, and do not seek to escape obligations

they are able to fulfil, despite the fact that in numerous cases, the debts appear to be much more burdensome than anticipated at the time they were incurred, just as they expect our governments and great institutions to meet their obligations in full. But many of these people need a little more time to settle and where there is an adequate margin of security and demonstrated ability to pay it is a comparatively simple matter for such borrowers to make satisfactory arrangements with the institutional lender. Thus leniency on the part of the lender plus determination on the part of the borrower, results in saving for the borrower properties that the lender has no desire to acquire and all are happy.

On the other hand there are those struggling under a load of debt, obviously too heavy to carry, with little or no reasonable hope of solving their financial difficulties, and in such cases it is manifestly unfair that the mortgagee should be embarrassed in cleaning up such a situation. Legislation that interferes with the long established rights of a mortgagee in such cases benefits no one, as it tends to destroy the morale of the borrower and causes injury to the lender that is most unjust. If, as frequently happens, the owner has, for one reason or another, lost his equity in a mortgaged property, is there any just reason why the mortgagee, who advanced money in good faith, should be prevented from selling the property pledged as security, or from taking other action in order to salvage as much as possible of the amount owing? If a borrower is deserving and the amount owing is clearly beyond his capacity to pay, a mutually satisfactory adjustment of the debt can be agreed upon, which in most cases, ultimately works out to the benefit of all concerned. Naturally I do not maintain that in the event of the various acts of moratoria being repealed no cases of hardship will develop, but I do say most emphatically that the net result of such a move would be beneficial from the standpoint of the country as a whole and consequently advantageous to our people. It is quite clear that too much consideration has been given to superficial inconveniences and there is unfortunately, an exaggerated notion abroad that great numbers of home owners will be dispossessed.

We recognize that there are honest differences of opinion as to the importance of this question of restrictive legislation, but when all phases of the problem are comprehensively considered it will, I venture to say, be shown that this problem is one of vital concern to the whole country. Emergency credit relief is understandable and possibly excusable where a general financial interest is involved, but we should most certainly avoid sweeping legislation making a general rule for every debtor, such as we have done in this country. Irrespective of arguments that may be advanced to justify or excuse legislation tending to degradate the mortgage on the grounds that these are merely measures of expediency designed to meet an emergency regarded as a national crisis, it is evident that we are fast approaching the time when constructive action can safely be taken by governments to restore the mortgage to its legitimate position as the prime security available to investors.

If mortgagees are left free and unhampered in dealing with their borrowers it should be possible to work out mutually satisfactory solutions in a vast majority of cases. If, however, governments must interfere it is not unreasonable to suggest that they should be prepared to reimburse creditors for any losses that are attributable to such interference. Our governments should give due consideration to the rights and needs of the creditor lest we destroy the commercial morality of the country. It has been pointed out time and again that a very large proportion of all mortgage loans in this country have been made by our loan, trust and insurance companies and it has also been shown that the money so invested represents the savings of countless thousands of small investors in every walk of life. These are facts that should be kept clearly in mind whenever a new Moses appears to offer a panacea for our financial ills.

It is a sound credit policy to tide over in emergencies solvent institutions whose assets clearly outweigh liabilities and it is only common sense and in the national interest for institutions to extend the greatest possible leniency and assistance to good borrowers during a critical period such as that through which we have recently been passing. Inversely it is an equally unsound policy to attempt to validate the assets of an institution that is clearly insolvent or to carry a debtor indefinitely when it is obvious that he has no reasonable hope of paying his debts. The heavy blows that have been struck at the principle of sanctity of contracts during recent years would indicate that many people forget that credit is nothing more, nor less, than confidence. Efforts on the part of governments to improve the lot of farmers and others have contributed greatly to the heavy burden of debts now carried, and it should be patent to all that iniquitous legislation such as we have witnessed only tends to aggravate an already difficult situation and retard recovery.

It is a truism that capital will seek out the places where it is treated best and subjected to the least restrictive legislation. There are some who feel that we do not need more capital in this country. However, when we reflect upon the vast potential wealth of our natural resources, still largely undeveloped, and remind ourselves of the fact that our national prosperity depends upon the wise development of these natural resources, we are led definitely to the conclusion that much new capital will be required in the future.

Despite some signs to the contrary following the war when Canada for a time became a net exporter of capital, the continuing economic progress of this country will probably depend for some time upon the occasionally capricious appetites of foreign capital markets for Canadian securities. It is a fortunate thing for this country that our prime minister has thoroughly understood that confidence is the all-permeating and essential element of modern finance, industry and commerce and that he has had the courage to adhere to sound policies, resisting the temptation to enact measures that might tend to increase his popularity but which would rebound to the disadvantage of this country when more

normal conditions return to a troubled world. Our financial structure still possesses the fundamental elements of stability, providing an excellent foundation for future development in this country.

This Dominion of Canada, where agriculture is of paramount importance, is still largely undeveloped and in many respects a pioneer community. As a country we are still financially subordinate, linked to the uncertainties of world markets in several of the great agricultural staples, and it is imperative that other countries with which we wish to trade should have the greatest confidence in Canada. Fortunately sane counsels have largely prevailed in this country throughout the difficult depression years through which we have just passed and our national credit has not been destroyed, but in some sections of the country there has been a drift toward dangerous shoals that must be arrested promptly if we are to avoid disaster.

Is it too much to hope that a radical change in the trend of restrictive legislation is outside the realm of practical possibilities, once it is recognized that such legislation constitutes an underlying disruptive force of great danger? I cannot believe that governmental leaders will continue along a dangerous road once they realize the perils. I prefer to believe that our more responsible leaders have been so absorbed in what appeared to them to be questions of more immediate importance that they have failed to realize the imminence of danger in connection with this problem of restrictive legislation. I do not close my eyes to the political vicissitudes of the past few years, nor do I overlook the economic disintegration, resulting from the tumble from highly remunerative price levels to unremunerative price levels which, in turn, completely upset the calculations of all borrowers. No human wisdom could have foreseen such drastic curtailment as we have witnessed and we all know that debts that could have been met with comparative ease three or four years ago have, in many cases, become unbearable burdens in May, 1934. Confidence alone cannot restore more prosperous conditions but lack of it can certainly retard, if not prevent recovery, as experience has shown that a sound financial system is vital to economic activity.

May I repeat that it is generally recognized that a sound financial structure is essential to economic progress; that our own financial structure is thoroughly sound and that the mortgage lending institutions in this country occupy a vital position in our financial set-up. Assuming that these are facts that will be readily admitted, it is perhaps only natural that we should examine the record of our insurance, loan and trust companies in order to determine whether or not they are deserving of public confidence. Any exhaustive investigation would, I submit, prove that these great institutions, directed largely by men possessing the essential and useful economic virtues of integrity and institutional loyalty, have performed their allotted functions with reasonable economy and safety; have borne the strain of deep-seated economic disequilibrium for many years without a failure and are thoroughly deserving of a continuance of the confidence of the investing and borrowing public.

While sometimes accused in the past of almost fanatical conservatism it is now clear that many of the fundamental principles underlying the operations of these institutions have been handsomely vindicated during recent trying years. That invaluable and fragile asset known as good will which cannot be precisely estimated, is created by the performance of all companies and the ever-increasing volume of business enjoyed by these institutions surely suggests a high degree of public confidence. Our first responsibility is admittedly to protect the savings of the people entrusted to our care and in spite of the exigencies of the situation faced by all financial institutions during recent years, including liberal impediments provided by misguided governments, no beneficiary under a life insurance policy, no depositor nor debenture holder has failed to obtain prompt settlement of his or her claim; while these institutions have continued to extend the utmost leniency to embarrassed debtors. The ability of the companies to carry on and continue to function so efficiently under such conditions is due to sound management and the strength that comes by diversification of assets and liabilities.

The backbone of this country is an independent virile agriculture, made up of individual families. As a class our farmers are conservative but as we look back over the developments of the past decade it is evident that even our farmers must plead guilty to extravagance, to prodigality, having borrowed and spent with reckless abandon. Under ordinary circumstances a bad loan represents an error of miscalculation by both borrower and lender, but as I have already stressed, the present situation has been aggravated by unwise and unfair legislation. To the credit of our large lending institutions it must be said that they were not beguiled by fantastic figures at which farms were changing hands during the boom days, and preserved a conservative attitude in extending credit; otherwise the collapse might have been absolute. As it is, there should be little difficulty in adjusting farm debts on an equitable basis. I have endeavored to show that the loan, trust and insurance companies supplied, at fair rates of interest, the bulk of the mortgage credit that contributed so largely to the fine record of progress of this country during the past fifty years and longer: credit that vastly increased the economic assets created by the pioneers in a rudimentary rural economy. I have indicated that these institutions can and will provide all reasonable accommodation in the years to come, if there is assurance of just and fair treatment by our governments. It should not be difficult for the responsible authorities to satisfy themselves that mortgage credit is being furnished at the lowest rates that can be justified, taking into consideration the four component cost factors I have indicated. Having established these facts the government is then in a position to make any contribution to agriculture that may seem necessary or desirable in the present emergency and avoid setting up expensive machinery in competition with existing companies. The government might well use its credit in an emergency such as that we are presently facing but as already mentioned, this should be in the nature of a temporary expedient. Like so many countries, we have gambled in futures, giving blank cheques to be paid by posterity,

but we must call a halt sometime. Direct contributions or credit extended during a period of stress should prove much less expensive to the country as a whole than embarking upon an elaborate plan of agricultural credit in the hope of providing money at lower rates than those charged by existing organizations, which, I hope I have shown, are not excessive.

Belshaw has listed four major considerations relating to credit as follows:

1. The general character of the people.
2. The stability of social, political and economic institutions.
3. The laws relating to borrowing and lending, or the readiness with which contracts may be made and enforced.
4. The efficiency of the machinery established to facilitate borrowing and lending.

We ought to consider these recommendations, quite dispassionately and without preconception, in relation to the problem of farm credit in this country, in the hope that any weaknesses in our present set-up may be revealed. It may, I think, be safely assumed that while admitting the desirability of low rates of interest, we can hardly afford to stifle the spirit of enterprise, nor to discourage the investment of new capital in this country. There are unquestionably certain risks involved in the inflexible mortgage on farm security as a channel for the investment of trust funds, but given the security of a stabilized agriculture and fair laws, competition will regulate interest rates so that these will compare favorably with the rates obtainable on other securities. Emergency relief is imperative, but permanent relief is only possible through the profitability of agriculture, and this must involve a fair return on capital invested.

O. GAGNE.—First of all, I must say that in studying the problem of agricultural credit my purpose is to assist in finding a way of improving the permanent financial position of agriculture. So I am deliberately putting aside any scheme that might be only of temporary usefulness in assisting in the financing of agriculture.

Intermediate credit may be understood as a medium of supplying money to the individual farmer or to co-operative agricultural associations. Intermediate credit for the individual farmer may be discussed first and one can summarize the farmer's wants in the matter of intermediate agricultural credit within eight points:

1. The farmer of eastern Canada wants a credit organization able to supply him with either short term or medium term credit services. There is no necessity of having different credit institutions for providing the farmer with short term credit and with intermediate credit. Everybody knows that short term credit for agriculture means loans running from a few days to six months and sometimes even nine to twelve months. Everybody knows also that quite often the farmer who has borrowed money for six months is unable to pay the whole sum back before twelve or twenty-four months. The 160 people's banks or credit unions now

operating in the rural centres of Quebec are meeting such needs of their farmer members. More than twenty-five per cent of the money lent to farmers is paid back after a period of two years. Having two different institutions, one for short term credit operations and the other for intermediate credit would involve too many complications for most farmers; it would make intermediate credit too expensive, in the long run, to be helpful.

2. The farmer wants a co-operative credit system. To be really helpful to agriculture a credit system must be established with the personal co-operation of farm people and with the co-operation of their savings. Such an aim is attained only through local co-operative credit societies of farmers or of farm-minded people. In every agricultural locality nearly all the people know each other and it is quite easy to figure out the net worth of any potential borrower. The mutual knowledge existing between the farmers of the same community makes feasible without any expense the lending of money to deserving borrowers at good conditions. What makes a system of co-operative credit so efficient is the fact that the loans of the lending institutions come from the savings of its adherents.

3. The farmer wants a credit system which can be easily adapted to many different conditions. In our country this point is of great importance and unless we pay a good deal of attention to it, we may expect numerous failures. Psychological, social and economic conditions often differ widely among the agricultural people of the same district or county.

4. The farmer wants a credit system that can supply him with small loans at a low cost. We often hear or see references being made to the big farms, but such references are misleading. Anybody who is acquainted with our farm conditions knows pretty well that the great majority of our farmers are managing family enterprises of a small or of a medium size. In 1931, 70 per cent of our farms were less than 201 acres in area.

The farmer having a family enterprise requires loans of less than \$500 more frequently than loans of larger amounts. In 1932, out of a total of 1987 loans granted by eight credit unions to rural borrowers, 1786 were for amounts of less than \$401, and 1218 for loans of less than \$101.

5. The farmer wants a credit system that is not too expensive. Agriculture as a rule is less risky than industry or business. This condition justifies for agriculture a lower cost for its credit than for that of business. Our rural people's banks are now loaning money at a rate varying from 5 to 6 per cent. The Mont Carmel Credit Union (150 farmers in the parish) has now 84 farm loans outstanding for a total amount of \$25,000. The rate of interest on those loans is 5½ per cent for those of less than \$1000, and 5 per cent for those higher than \$1000. There is no special fee charged whenever a loan is renewed.

6. The farmer wants a credit system accessible but not too large. This rule applies to any type of credit institution, public or private,

co-operative or capitalistic. Too much credit is as harmful to agriculture, in the long run, as is an extreme scarcity of credit. The present economic depression has been made much more severe for a good many of our farmers because they had been granted too much credit in the prosperous years. With easy credit the young farmers are induced to buy expensive farms or farms that are not convenient for them; they may invest their capital in risky enterprises such as silverfox or mink farming; they forget that some day they will have to pay back and they neglect to provide for it.

The only practical way of having a co-operative credit institution accessible for the deserving farmer and, at the same time not too liberal for those unable to use credit wisely, is to provide such an institution with a credit committee of persons selected among its own members by the general assembly. The Quebec credit unions law requires such a committee for every people's bank. The statute defines the powers and duties of the credit committee in the following terms: "The committee of credit shall alone have absolute control of the loans, wherever such loans are made, saving the right of appeal to the board of management and of taking, for the benefit of the association, hypothecary and other security to secure the loans, and to give discharges thereof; and the by-laws of the association shall determine the conditions under which they shall perform their duties. Nevertheless, the members of such committee shall, neither directly nor indirectly, borrow from the association, nor become security for any borrower.

The credit committee investigates all applications for loans with an absolutely unbiased mind. Its members, who should number three at least, consider the moral character of the prospective borrower, his resources, and the purpose of the loan applied for. They usually show a marked preference for productive loans. The credit committee is entirely free from political influences.

7. The farmer wants a credit system facilitating easy repayment by the borrower. The most helpful method of repayment for a borrower living on the farm is the monthly instalment plan. It is the most popular method among the members of many rural credit unions.

8. The farmer wants a credit system which is attractive to those rural folks having savings to deposit. Any local or central co-operative credit institution must provide for the establishment of permanent reserve fund of its own. The law is emphatic on this point.

Collective intermediate credit may be mentioned briefly. The credit conditions of agricultural co-operative societies are too often far from being good. The reason for such a situation lies in the fact that most co-operative purchasing or marketing associations of farmers are not sufficiently supported by their numbers. The great weakness of many co-operative societies is due to their lack of reserve funds or to their relatively small amount of capital stock. The banks cannot grant cheap credit to co-operative societies suffering from such weakness. The situation is more easily met when a people's bank and a co-operative

purchasing or marketing society are operating in the same county. The directors and members of both organizations know one another very well and the financing of the transactions of the co-operative society through the credit union is easily done. In nearly every rural parish where a credit union is operating successfully there are reported cases of collective buying or selling financed fairly cheaply by the credit union.

Here is the case of a small people's bank operating near the American border in a parish of about 600 people. The farmers of that locality buy their fertilizers co-operatively and foodstuffs on a cash basis through their credit union. The credit union is paid back by the butter factory. This last organization is authorized by the farmers who are indebted to the credit union to give cash each month to the latter, one cent per pound of butter supplied by them to the factory. The same credit union makes advances of money to its members whose co-operative society ships carloads of cordwood to Montreal. The credit union is paid back by the Montreal firm to which the wood has been sent.

Any people's bank on account of the flexibility of its organization can adapt itself to all kinds and forms of safe collective credit. And it can do it cheaply. In 1932, an agricultural co-operative in Arthabaska county bought 11 carloads of farm supplies for its members with the financial assistance of the local credit union. The average net cost of these financial operations per carload amounted to 90 cents. One of the biggest specialized co-operative societies of farmers in Quebec, the Maple Syrup and Sugar Pool, started its operations in 1927 with money supplied by a credit union.

FACTORS IN THE GROWTH OF RURAL POPULATION IN EASTERN CANADA

O. A. LEMIEUX, S. A. CUDMORE, M. C. MACLEAN,
A. J. PELLETIER, AND W. R. TRACEY

The following facts were pointed out by Mr. M. C. MacLean before the Political Science Association last year in a paper on "The Correlation between Population Density and Population Increase in Canada":¹

1. There are clear indications that the spread of population over the land has been continuous from the original settlements outwards. The peculiarity in the growth of Canada is not the discontinuity of its population spread, but its extreme rapidity and its superficiality and generally low density.

2. The result has been that out of 219 counties and census divisions of Canada, 127 had a larger rural population at some previous census than in 1931 and 83 had a larger total (rural and urban) population, i.e., they have passed at least a temporary point of maximum density. While solid blocks of counties reached practically the same degree of maximum density, they did not arrive at it at the same time. The fact of arrival at maximum density must have been due to something more fundamental than temporary economic stress.

3. The manner in which the 127 counties arriving at maximum density have since behaved further indicates that their maturity of rural population was not a temporary incident or accident, but was due to something more fundamental than this. The tendency of these counties would seem to be towards a stabilization at 82 per cent of their population at maximum density. This 82 per cent is easily accounted for on the assumption that the maximum density was an excess which was thrown off, the true point of density under the conditions to be mentioned in the next two paragraphs being the stabilization point.

¹ *Papers and Proceedings of the Canadian Political Science Association*, Vol. V (1933), pp. 209-15.

4. If we admit any such idea as excess, or indeed any fundamental idea, there is no reason for suspecting that the maximum and thereafter declining density in these areas was caused by such factors as deterioration of soil. The explanation of the growth of rural Canada hitherto, especially of the parts arriving at maximum density since 1871, would seem to be not in the condition of resources of the country, but in the desultory manner in which settlement took place.

5. There has been a correlation of rate of population growth in Canada with the previous density. This correlation, however, would seem to be due to the superficial manner of settlement, *not to the real population capacity of the country.*

The purpose of the present paper is to attempt to single out the factors responsible for this behavior of rural population and to determine their relative importance. This can be accomplished only by a study of the component parts of rural population.

The rural population of eastern Canada may be divided into three classes, namely: (1) the farm population — that part of the population that derives its entire subsistence from the tillage of the soil; (2) the non-farm population — that population which is part of the rural but engaged in occupations other than farming, including blacksmiths, shopkeepers, teachers, etc; (3) the mixed population — the population living on farms but deriving the major part of its livelihood from some other occupation. The last two classes are alike and therefore can be studied together.

In order to arrive at some understanding of the causes of the decrease of rural population, it becomes necessary to briefly review the development of agricultural production, and to examine what has happened to the occupations other than pure farming giving employment to the people of these counties which have had their maximum rural population at some time previous to 1931.

The ninety counties taken as a sample in this study generally attained their maximum rural population earlier than

their maximum number of farms, areas occupied, improved and under field crops.² Their behavior was as follows:

TABLE I.

	1851	1861	1871	1881	1891	1901	1911	1921	1931
Maximum rural population	3	16	9	34	12	2	4	1	9
Max. number of farms	...	2	...	25	45	4	10	2	2
Max. acreage occupied	...	1	2	11	31	4	10	13	18
Max. acreage improved	...	...	1	5	46	2	11	12	13
Max. area of field crops	...	...	...	4	54	2	7	10	13

The acreages improved and under field crops in 1891 appear high because in the census of that year all pasture land was counted as improved and the acreage under field crops was obtained by deducting acreages of orchards, gardens and pasture from the total improved. Were proper corrections made, the number of counties having their maximum acreages of improved land and field crops in that year would be smaller, but it would in no way alter the final conclusion, namely, that there is no relation whatever between the year in which a county reached its maximum of rural population, of occupied farms, of areas occupied, improved or under field crops.

The above table is highly significant because it clearly indicates that the fact that a county reached its maximum of rural population and began to decrease involved no lag in the agricultural development of the county and it did not prevent any arable land from being brought under the plough. The farm workers did not decrease in numbers even though farm labor was supplemented by machinery.

It is of interest to state that of the 72 counties in the sample chosen which had their maximum occupied area at some time previous to 1931, 41 counties had over 80 per cent of the total land area of the county in farms, 16 had between 50 and 80 per cent and the remainder had less than 50 per cent of the maximum. The counties with less than 80 per cent of the total land area occupied at maximum are located as follows: 17 in Nova Scotia, 8 in New Brunswick, 6 in Quebec and 6 in Ontario, and are counties with vast areas of rough land or land otherwise unfit for cultivation.

² See Appendix, Table III.

It may safely be said that when the counties reached their maximum occupied area, all the land which was capable of profitable tillage under the existing conditions of the time was already occupied. It is also significant that in studying these counties one finds that in most cases the average acreage per farm was greater in the early censuses and decreased until the maximum occupied area of the county was reached, to again increase steadily until in 1931 it was higher than at any previous time. When the lowest average acreage per farm does not occur in the same year as the maximum occupied area of the county, it occurs at the census immediately preceding or immediately following it. This fact indicates that the farmer divided his land among the members of his family, until such times as the farm unit became too small for further subdivision. Then families began selling their farms to others, seeking for themselves other sections where land was more plentiful. This point marks the beginning of the increase in the size of farms in all of the counties under study.

The growth of improved land in these counties behaved in a way very similar to the growth of the occupied acreage. Of the counties which had an improved acreage higher at some previous time than in 1931, 29 had in 1931 an improved area that was between 95 and 100 per cent of the area at maximum; in 9 it was between 90 and 95 per cent; in 7 between 80 and 90 per cent, and in the remainder it was less than 80 per cent. The counties where the improved area in 1931 was less than 80 per cent of the improved acreage at maximum are the counties where the land occupied forms less than 80 per cent of the total land area, to which are added three counties in Nova Scotia, two in New Brunswick, three in Quebec and ten in Ontario. From a study of these counties, it is evident that the decrease in improved area is due to the abandonment of land of poor quality which in most cases should never have been brought under cultivation. This fact will be alluded to again when dealing with the rural non-farm population. The reaching of a maximum rural population did not therefore bring the agricultural settlement of a county to a stop, but land continued to be occupied as long as it was available.

We have now described the manner of settlement of these counties, and may next examine the development of agricul-

tural production to ascertain whether or not it has suffered from the apparently decreasing farm population. A close examination of the production of these counties indicates in most cases a decided increase in production since the time of their maximum rural population down to 1931, while there are also the following important changes in type of production.

The production of horses has decreased to a marked degree in all counties. This is due to the replacement of horses on the farms by automobiles, motor trucks and tractors, and to the fact that farmers have ceased producing horses for sale to urban centres where they are no longer required. The acreage devoted to the production of pasture and feed for horses has been switched to the growing of other crops.

The cattle industry has developed extensively in most counties, but the development has been in dairy cattle. The increase in milch cows compared to the total increase in cattle shows that relatively the beef industry has been declining. The development of the dairy industry is greater than appears from a consideration of the increase in the number of milch cows, as the improvement in the various breeds of dairy cattle is indicated by a much higher production of milk per cow. Improved arrangements for transportation of whole milk and milk products has facilitated their production for export in areas which previously had been producing only for local consumption. The production of beef in eastern Canada has decreased probably because it could not compete with the production of western Canada, where it is produced practically under ranching conditions. In the majority of counties where the number of milch cows has decreased, the industry was replaced by another well defined type of farming, and in the others, large areas of land were abandoned because of their low productivity.

The number of sheep has decreased in most counties, and the few counties which show increases are newly settled counties and others with large areas of rough land. The number of swine has increased in nearly all counties. This is to be expected because the dairy and swine industries go well together. All counties but one show an increase in the number of poultry on farms. This is evidenced by the fact that egg production in the eastern provinces between 1900 and 1930 has

increased as follows: Prince Edward Island 61.1 per cent; Nova Scotia 31.4 per cent; New Brunswick 67.5 per cent; Quebec 79.5 per cent; and Ontario 44.4 per cent. Bee-keeping has also gained greatly in importance in the last 30 or 40 years.

In field crops, one notices the gradual disappearance of wheat, peas, beans, rye and flax; while barley, oats, mixed grains, buckwheat, hay and pasture show very important gains. The crops formerly grown for sale have been replaced by crops grown to be fed on the farm and sold as milk, bacon hogs, eggs, etc. The only exception is the production of fall wheat in Ontario. In this case, climatic conditions are the controlling factor, and fall wheat is not grown to a very great extent in the prairie provinces, so that the counties producing this crop did not suffer very much from western competition. Very few counties, however, grow large amounts of fall wheat.

The production of potatoes has fluctuated very much but their commercial production has established itself in well defined areas of the maritime provinces and Ontario. The same thing can be said of tobacco, but the specialization in this case is of more recent occurrence and more limited in extent. In 1930, the counties of Elgin, Essex, Kent, Norfolk and Oxford in Ontario, and Joliette, l'Assomption, Montcalm and Rouville in Quebec produced 95.2 per cent of the Canadian crop of tobacco. The production of fruits has also developed in well defined areas of limited extent, and the production of truck crops is found in localities which have an easy access to urban centres.

There is absolutely no sign of soil deterioration in any county, unless the abandonment of land which should never have been brought under cultivation be called soil deterioration. We have now shown that agricultural production as a whole has not suffered but has grown and developed rapidly in spite of decreasing rural population.

We may next examine the part played by the mechanization of production. There is no doubt that mechanization has been largely responsible for the tremendous increase in agricultural production, and that the changes in types of farming which occurred in eastern Canada were largely influenced by the development of the western prairies where mechanized production was not hampered by the existing conditions as in

the eastern provinces. Let us now see whether or not mechanization has been responsible for removing labor from the farms, and sending them away to other fields of endeavor.

The census of 1871 recorded the number of vehicles for transport, ploughs, harrows and cultivators, reapers and mowers, horse rakes and threshing machines by counties. At the time of this census, 27 counties had already reached a maximum of rural population. A compilation of the numbers of these machines per farm does not reveal that these counties, already decreasing in rural population, were more highly equipped than the others, and even if they were the number per farm is so small that it could not be blamed for taking away the employment of large numbers of people. There were in Canada in 1871 per 100 farms, 224 wagons, sleighs, light trucks, etc., 156 ploughs, harrows or cultivators, 11.7 reapers or mowers, 16.7 horse rakes and 8.2 threshing machines, all of small calibre. The numbers in the counties having reached maximum population is not appreciably larger than in the others, and where they are it is because a greater proportion of the farm is under cultivation.³

The compilation of the number of persons gainfully employed in agriculture for these counties for the years 1871, 1881 and 1931, reveals that in nearly every case the number of persons gainfully employed per farm is greater in 1931 than at any other time in the last 60 years. The numbers of persons removed from the work in the field by the advent of machinery were given employment looking after live stock or special crops.⁴

It is true that during the period from 1871 to 1931, the average size of farm has increased, but is it due to the displacement of man power by machinery? The increases are as follows: Prince Edward Island 9.9 acres, Nova Scotia 0.5 acres, New Brunswick a decrease of 0.6 acres, Quebec an increase of 37.3 acres, and Ontario of 25.1 acres. During the same period, the average acreage under hay and pasture increased 21.5 acres in Prince Edward Island, 7.4 acres in Nova Scotia, 10.0 acres in New Brunswick, 30.6 acres in Quebec and 30.6 acres

³ See Appendix, Table V.

⁴ *Ibid.*, Table IV.

in Ontario. With the exception of Quebec, the increase in size of farm was due to the increase in hay and pasture which require a minimum use of machines. In Quebec, the increase in size can be explained by the fact that in the early days of settlement the farms in Quebec were much smaller than in the other provinces, and they are now just catching up with the others.

It can be said that the effects of agricultural mechanization on eastern Canadian farms are as follows:

1. Agricultural mechanization has permitted the farmer to do his job better, while removing some of the physical effort necessary to produce farm goods.
2. The changes which have taken place in types of farming have more than counterbalanced the elimination of workers from work in the fields by machinery and have given them employment looking after live stock and special crops. The result is that more people are employed per farm in 1931 than previously.
3. Machines have permitted the farmer to bring a greater proportion of his farm under cultivation.
4. Machines have permitted better tillage, better care of crops, such as cultivating, spraying, etc., ensuring a larger and better quality of crop.
5. Types of farming and custom do not lend themselves easily to mechanized farming in eastern Canada.

Much has been said on the effect of mechanization on the farms of the prairie provinces. It would not be amiss to see in what way this effect is shown. Census divisions 10, 12 and 13 in Manitoba and 1, 3 and 5 in Alberta had in 1921 at least a temporary maximum of rural population. A study of these divisions with the adjoining divisions 7, 9 and 14 in Manitoba and 2, 4 and 6 in Alberta shows that the divisions which have reached their maximum are no more mechanized than the others. If anything they have fewer implements per farm and per 100 acres improved than those which have not yet reached a maximum, and the number of persons employed per farm is no smaller. It may be said, then, that the effect of mechanization reveals itself in the prairie provinces in the increase in area of farms rather than in the removal of employment, and the outcome will probably be that as time goes

on, the divisions reaching maximum population will have a much lower density than those which have arrived at it in the past, thus limiting the possibilities of growth of farm population. Apparently, the only ones to suffer so far from the mechanization of agriculture in the west are the seasonal workers, who in the majority of cases were a transient population.⁵

We have shown that agricultural production and farm labor have not suffered in any way from the downward trend of rural population. Let us see now to what extent the farm population has contributed to the decline. The census of 1931, for the first time, gives a count of the actual farm population i.e., the population which derives its entire subsistence from the tilling of the soil. For past censuses, it is possible to estimate very closely the corresponding population from the number of farms, the average size of family and the number of persons gainfully employed in all occupations.

On this basis it is estimated that the decrease in farm population between 1871 and 1931 in the 27 counties reaching their maximum rural population in 1871 or before is 39,627 or 13.5 per cent or a decrease of 0.63 persons per farm. For the 29 counties reaching maximum in 1881 the estimated decrease is placed at 33,210 or 9.0 per cent and a decrease of 0.36 persons per farm. How can the population decrease while the number of persons gainfully employed is increasing? This brings us to a consideration of the farm family itself.

TABLE II.
AVERAGE SIZE OF FAMILY

Province	1881	1891	1901	1911	1921	1931
All Canada	5.33	5.26	5.03	4.85	4.63	4.57
P. E. Island	6.06	5.86	5.51	5.09	4.71	4.69
Nova Scotia	5.54	5.38	5.14	5.00	4.82	4.70
New Brunswick	5.64	5.50	5.28	5.24	5.04	5.07
Quebec	5.33	5.47	5.37	5.40	5.34	5.34
Ontario	5.26	5.10	4.79	4.64	4.30	4.22

A study of the average size of family shows a decline between 1871 and 1931 of 1.37 persons in Prince Edward Island, 0.84 in Nova Scotia, 0.57 in New Brunswick, 1.04 in

⁵ See Appendix, Table VI.

Ontario and no decrease in Quebec. Vital statistics show that the birth rate has decreased in all counties. Another compilation of the population shows that the number of children per family has decreased in approximately the same proportion. The proportion of single persons 15 years and over has increased, while the proportion of children under 15 years of age shows a decline.⁶

It is here indicated that the decrease in population per farm is less than the actual decrease in the size of family, so that the increase in the number of persons employed per farm must act as a compensating factor to the decline in the number of children per family. The decrease in farm population is, therefore, one of the causes of rural decrease, but a cause which must not be confused with farm labor. It is rather a decrease in population under migrating age.

We come now to the consideration of the non-farm population. The population living on small farms and having other occupations and the purely non-farm population can be dealt with under the same heading because the occupations giving both types their subsistence are the same, with the exception that the income of the mixed population is supplemented by some returns from the farm.

The rural craftsmen who some years ago were found throughout the rural districts have almost disappeared and with them hundreds of families have had to seek their fortunes in other sections of the country and often enough in other countries. Thus there were in Prince Edward Island in 1881, 623 blacksmiths and 426 boot and shoe makers, and in 1931 these numbers had dwindled down to 162 and 44 respectively. These two occupations alone are responsible for the disappearance of several hundred persons from the rural districts of the province. The same thing can be said of cabinet and furniture makers, carriage builders and repairers, coopers, millers, tailors, tanners, saddlers and harness makers and a host of other workers.

The situation is more striking still in the other provinces. In Ontario there were in 1871, outside of the cities of Brantford, Hamilton, Kitchener, London, Toronto and Windsor, 7,501

⁶ See Appendix, Table VII.

blacksmiths and 5,770 boot and shoe makers and repairers, while in 1931 these numbers are down to 3,995 and 1,347 respectively. The number of coopers decreased from 2,354 to 280 during the same period.⁷

It is estimated, on the same basis as the estimate of farm population, that the decrease in population caused by these occupations in the counties reaching maximum rural population in or before 1871, is 154,453 or 58.4 per cent, and in the counties having their maximum in 1881 it is placed at 80,348 or 32.2 per cent. This is compared with the previously mentioned⁸ 13.5 and 9.0 per cent decreases respectively in farm population.

The decrease in the number of farms in these counties—a farm, for census purposes, is any piece of land one acre or over producing at least \$50 worth of produce—is due largely to the fact that when these part time farmers found that their other occupation had become unprofitable, they could not derive their entire subsistence from their small or poor farms, and were forced to abandon their homes to seek elsewhere the daily bread that these localities no longer afforded them.

It is undoubtedly true that civilization has brought in its wake a multitude of new occupations in trade, distribution and services. Let us examine briefly how the rural districts have fared in the distribution of all these new lines of endeavor. In 1931, the forty-seven cities of Canada with 15,000 or more of population, contained 34.6 per cent of the total population of the Dominion. In these cities were to be found 57.5 per cent of the persons gainfully employed in manufacturing; 50.9 per cent of those employed in construction; 52.0 per cent of those employed in transportation and communication; 69.5 per cent of those employed in finance; 62.0 per cent of those employed in trade; and finally 54.1 per cent of those employed in the various public and personal services. When due allowance is made for the 1,550 urban centres of less than 15,000 population spread out through the Dominion, the share of these occupations which goes to the rural districts is very small indeed.

⁷ See Appendix, Table VIII.

⁸ *Supra*, p. 204.

After having shown the cause of the decrease in rural population of the counties studied, it is fitting superficially to examine the few counties of eastern Canada which had not reached a maximum of rural population before 1931. These can be grouped into two classes: (1) the counties of Halifax, St. John, N.B., Chambly, Hull, Montmorency, Quebec, Sherbrooke, Essex, Lincoln, Sudbury and York; (2) the counties of Gloucester, Madawaska, Northumberland, Restigouche, Sunbury, Victoria in New Brunswick, Abitibi, Beauce, Chicoutimi, Dorchester, Gaspè, Kamouraska, Lac St. Jean, Labelle, L'Islet, Matane, Rimouski, Saguenay, Temiscamingue, Temiscouata in Quebec, and Kenora, Nipissing, Rainy River, Thunder Bay, Timiskaming and Cochrane in Ontario.

The first mentioned group is composed of counties located near large urban centres. A study of their agricultural development reveals that their behavior has been exactly that of the counties which have had their maximum rural population. Their continued growth is due to their proximity to these urban centres and it is caused by a non-farm population of urban character living in the county but earning its livelihood in the city, or from catering to the urban population in summer hotels, resorts, etc.

The second group is composed of counties which are now being colonized. The older parishes or townships of these counties have reached their maximum rural population and started to decrease, but the growth of the newer parts more than compensates the condition in the older ones, causing the total rural population of the county to increase. This indicates that the moment is near when the capacity for absorbing rural population of these counties will be exhausted, and because of the increase in the size of farms, their density at that time will be much lower than the density of counties which have reached maxima at an earlier date.

The main points of this paper can be briefly reviewed as follows:

1. There is no relation between the time when a county reached its maximum rural population and its maximum agricultural area and development.

2. All the available agricultural land of the counties that have ceased growing has been occupied, and in many cases the

occupation took place only after the rural population had started to decrease. In the counties where land was abandoned, it was because of its low productivity and not because of a shortage of population.

3. There is no sign of soil deterioration in any county, though there has been some abandonment of land which should never have been brought under cultivation.

4. There have been very marked changes in types of farming; dairying, fruits and vegetables, potatoes and tobacco have replaced the production of cereal crops for sale.

5. Mechanization has greatly improved the lot of the farmer and increased the production per man, but it is not responsible for the decrease in population.

6. The decrease in rural population is due mainly to the establishment in urban centres of large industries against which the small rural non-farming industry cannot hope to compete, and in a smaller proportion to the decrease in the size of the family.

7. The counties which are still increasing in rural population are, (1) counties located near urban centres, and (2) counties in the early stages of colonization. The counties which are still being colonized behave in their development in exactly the same fashion as those which have attained at some time in the past of a rural population larger than in 1931, i.e., the older sections have reached a maximum and begun to decline, but the growing sections more than make up for the decrease, so that the total rural population is still increasing.

8. Under prevailing conditions, the reaching of a maximum rural population in the counties studied cannot be regarded as temporary. As the rural population is now very largely on the farms and as there is a tendency towards larger farms in the newer districts, the possibilities of the growth of the rural population of eastern Canada are very limited.

APPENDIX

TABLE III.

List of counties taken as a sample with the census years when they reached their maximum rural population, maximum number of farms, areas occupied, improved and under field crops.

Maximum Rural Population	Maximum Number of farms	Maximum acreage occupied	Maximum acreage improved	Maximum field crops
1851				
Deux Montagnes	1861	1921	1921	1911
Laprairie	1881	1881	1921	1921
Lennox	1881	1891	1891	1891
1861				
Chateauguay	1891	1921	1881	1921
Huntingdon	1881	1931	1891	1891
Iberville	1881	1881	1891	1891
L'Assomption	1891	1891	1891	1921
Montcalm	1881	1881	1891	1891
Napierville	1861	1891	1891	1891
Soulanges	1881	1881	1911	1931
Vaudreuil	1891	1931	1931	1931
Verchères	1881	1881	1881	1911
Addington	1891	1901	1891	1891
Durham	1881	1891	1891	1891
Grenville	1881	1881	1891	1891
Haldimand	1891	1911	1911	1911
Lanark	1881	1881	1891	1891
Leeds	1891	1891	1891	1891
Prince Edward	1891	1881	1891	1891
1871				
Colchester	1891	1891	1891	1891
Hants	1891	1891	1881	1891
Pictou	1891	1891	1891	1891
Charlotte, N.B.	1881	1891	1871	1881
Elgin	1901	1891	1891	1891
Norfolk	1911	1901	1901	1891
Northumberland, Ont.	1891	1891	1891	1891
Oxford	1891	1891	1891	1891
Wellington	1881	1931	1911	1891
1881				
Queen's, P.E.I.	1881	1891	1921	1891
Annapolis	1891	1891	1891	1891
Antigonish	1891	1891	1891	1891
Cape Breton	1891	1891	1891	1891
Cumberland, N.S.	1891	1891	1891	1891
Digby	1891	1891	1891	1891
Guysborough	1891	1891	1881	1881
Inverness	1891	1891	1881	1881
Kings, N.S.	1891	1891	1891	1891
Lunenburg	1911	1891	1891	1891
Richmond	1891	1881	1881	1881
Shelburne	1891	1881	1891	1891
Victoria, N.S.	1891	1891	1891	1891
Yarmouth	1891	1891	1891	1891
Albert, N.B.	1881	1871	1891	1891
Carleton, N.B.	1881	1911	1911	1911

TABLE III. (Continued)

Maximum Rural Population	Maximum Number of farms	Maximum acreage occupied	Maximum improved acreage	Maximum field crops
1881 — con.				
Kings, N.B.	1881	1871	1891	1891
Queen's, N.B.	1881	1861	1891	1891
York, N.B.	1891	1911	1911	1891
Berthier	1891	1931	1931	1921
Brome	1881	1911	1891	1911
Maskinongé	1911	1921	1921	1921
Rouville	1881	1881	1921	1891
Stanstead	1891	1931	1891	1931
Yamaska	1881	1921	1921	1921
Bruce	1891	1931	1911	1891
Dufferin	1881	1931	1911	1911
Dundas	1881	1921	1931	1931
Glengarry	1891	1921	1891	1931
Grey	1891	1931	1891	1891
Hastings	1891	1921	1891	1891
Huron	1881	1931	1911	1891
Perth	1891	1931	1931	1891
Victoria, Ont.	1891	1931	1891	1891
1891				
Kings, P.E.I.	1891	1891	1911	1891
Prince, P.E.I.	1891	1921	1931	1931
Queen's, N.S.	1891	1891	1891	1891
Westmorland	1891	1901	1891	1891
Bagot	1891	1911	1931	1931
Compton	1911	1931	1891	1891
Joliette	1891	1891	1891	1891
Nicolet	1911	1921	1921	1921
Richelieu	1901	1931	1901	1901
Frontenac, Ont.	1891	1901	1891	1891
Lambton	1891	1931	1931	1901
Simcoe	1891	1911	1911	1891
1901				
Haliburton	1891	1921	1921	1911
Manitoulin	1911	1931	1921	1921
1911				
Kent, N.B.	1901	1911	1921	1931
Bellechasse	1911	1931	1931	1931
Wolfe	1911	1931	1921	1921
Muskoka	1901	1891	1891	1891
1921				
Montmagny	1911	1921	1931	1921
Rural maximum not yet reached				
Halifax	1891	1891	1891	1891
Northumberland, N.B.	1921	1911	1921	1891
Gloucester	1931	1921	1931	1931
Madawaska	1911	1911	1931	1931
Restigouche	1931	1931	1931	1931
St. John	1881	1891	1891	1891
Sunbury	1881	1891	1891	1891
Victoria, N.B.	1921	1921	1931	1931
York, Ont.	1891	1911	1911	1891

TABLE IV.

NUMBER EMPLOYED IN AGRICULTURE AND AVERAGE PER FARM 1871,
1881, 1931 AND INCREASE IN IMPROVED LAND 1881-1931

	1871	1881	1931	Per Farm			Increase in Improved Land 1881-1931
				1871	1881	1931	
PRINCE EDWARD ISLAND							per cent
Kings		5,938	5,505		1.53	1.58	15.1
Prince		6,403	6,473		1.45	1.44	16.2
Queens		8,189	7,610		1.53	1.56	14.8
NOVA SCOTIA							
Annapolis	2,802	3,879	3,042	1.05	1.24	1.40	-24.4
Antigonish	3,219	4,114	2,489	1.39	1.62	1.41	-24.2
Cape Breton	3,538	4,465	3,373	1.13	1.20	1.58	-11.7
Colchester	3,432	4,834	4,740	1.07	1.34	1.76	- 6.4
Cumberland	3,861	5,045	4,099	1.20	1.30	1.46	1.0
Digby	2,206	2,772	2,707	0.97	0.98	1.29	-15.8
Guysborough	1,620	2,155	2,471	0.72	0.82	1.43	-11.7
Halifax	2,493	3,363	4,118	0.87	0.79	1.52	- 8.9
Hants	2,846	3,692	3,234	1.11	1.37	1.36	-16.6
Inverness	5,026	5,711	4,799	1.54	1.58	1.58	-22.0
Kings	3,388	4,685	3,879	1.19	1.35	1.27	-20.8
Lunenburg	3,688	4,374	5,335	1.12	1.10	1.47	-17.0
Pictou	5,154	6,318	3,982	1.35	1.48	1.36	1.0
Queens	671	1,086	1,219	0.57	0.70	1.20	-11.0
Richmond	1,309	1,545	2,144	0.72	0.65	1.47	-13.0
Shelburne	437	884	1,120	0.23	0.35	1.49	-15.7
Victoria	2,427	2,815	2,386	1.54	1.59	1.70	-13.2
Yarmouth	1,652	1,947	2,445	0.75	0.71	1.40	-11.8
NEW BRUNSWICK							
Albert	1,791	2,373	1,546	1.18	1.37	1.43	5.2
Carleton	3,743	5,448	3,276	1.39	1.66	1.29	36.9
Charlotte	2,600	3,477	2,193	0.86	1.06	1.41	- 9.1
Gloucester	3,216	4,273	7,169	1.31	1.52	1.40	- 0.5
Kent	3,967	5,092	5,308	1.47	1.53	1.72	10.8
Kings	5,037	5,978	4,044	1.41	1.54	1.41	5.0
Northumberland	2,399	4,309	4,382	1.10	1.53	1.30	0.2
Queens	2,805	3,559	2,317	1.39	1.62	1.42	- 4.5
Restigouche	902	1,250	2,902	1.45	1.44	1.61	4.0
St. John	1,127	1,513	832	0.99	1.13	1.66	5.9
Sunbury	1,322	1,658	1,302	1.32	1.63	1.74	0.2
Victoria	2,299	3,662	1,889	1.99	2.88	1.30	25.7
Westmorland	4,795	6,140	5,624	1.31	1.35	1.51	8.3
York	4,391	5,858	4,405	1.42	1.65	1.61	4.2
QUEBEC							
Bagot	3,055	4,212	4,027	1.44	1.43	1.72	34.0
Bellechasse	3,164	3,839	4,443	1.33	1.62	1.57	23.7
Berthier	2,752	3,474	3,496	1.12	1.25	1.83	31.7
Brome	2,648	4,430	3,256	1.24	1.80	1.88	- 6.0
Compton	2,753	4,860	3,996	1.31	1.53	1.62	- 0.8
Deux Montagnes	2,462	2,878	3,974	1.42	1.41	2.59	23.5
Chateauguay	2,693	2,867	3,497	1.46	1.49	2.12	3.0
Huntingdon	3,017	3,372	2,895	1.44	1.49	1.61	1.9

TABLE IV. (Continued)

NUMBER EMPLOYED IN AGRICULTURE AND AVERAGE PER FARM 1871,
1881, 1931 AND INCREASE IN IMPROVED LAND 1881-1931—con't.

	1871	1881	1931	Per Farm			Increase in Improved Land 1881-1931
				1871	1881	1931	
QUEBEC — con.							per cent
Iberville	2,413	2,741	1,801	1.45	1.56	1.68	29.4
Joliette	3,168	3,819	3,437	1.19	1.48	1.65	24.0
Laprairie	1,990	1,967	2,166	1.57	1.25	2.06	22.6
L'Assomption	2,060	2,399	2,837	1.19	1.44	1.93	14.6
Montcalm	2,518	2,758	3,320	1.47	1.44	2.01	8.3
Montmagny	1,495	2,162	3,533	1.01	1.42	2.26	17.9
Maskinongé	2,814	2,997	3,529	1.76	1.60	2.36	29.0
Napierville	1,891	1,971	2,063	1.40	1.48	2.04	20.3
Nicolet	4,272	5,227	7,529	1.50	1.52	2.05	27.6
Richelieu	2,600	2,692	2,360	1.67	1.52	2.03	47.0
Rouville	3,213	3,564	2,567	1.53	1.60	1.73	21.2
Soulanges	1,501	1,768	1,571	1.13	1.52	1.81	30.5
Vaudreuil	1,394	1,865	1,916	1.21	1.38	1.97	31.5
Verchères	2,077	2,295	2,190	1.30	1.35	1.91	26.2
Wolfe	1,831		3,973	1.64		1.96	44.3
Yamaska	2,616	3,143	4,247	1.11	1.18	2.07	36.5
Stanstead	2,295	2,847	2,976	1.27	1.26	1.68	35.1
ONTARIO							
Addington	3,984	5,435	1,900	2.91	3.87	1.77	7.7
Bruce	8,260	12,265	9,031	1.28	1.51	1.45	34.6
Dundas	3,367	4,133	4,082	1.53	1.52	1.73	25.0
Elgin	5,488	7,339	7,423	1.20	1.41	1.64	17.9
Durham	6,766	5,487	4,977	1.81	1.37	1.54	8.0
Frontenac	2,470	2,868	5,152	1.40	1.62	1.78	7.8
Glengarry	3,218	4,817	4,787	1.32	1.70	1.96	21.0
Grenville	2,200	3,861	3,346	0.78	1.27	1.50	13.6
Grey	9,667	11,774	10,991	1.14	1.12	1.34	23.2
Haldimand	3,100	3,765	4,622	1.06	1.17	1.57	20.9
Hastings	7,662	9,394	8,155	1.43	1.51	1.64	5.3
Huron	10,798	14,310	10,522	1.34	1.63	1.43	27.4
Lanark	5,384	6,029	4,426	1.50	2.17	1.62	- 8.1
Leeds	4,613	5,547	5,344	1.11	1.28	1.59	5.4
Lennox	2,280	2,807	2,533	1.28	1.39	1.57	5.6
Manitoulin	451		2,114	1.50		1.66	34.1
Muskoka	1,275	6,497	2,389	1.26	1.53	1.44	11.0
Lambton	4,558	6,818	8,255	1.22	1.42	1.30	26.1
Norfolk	4,647	6,492	6,023	1.11	1.43	1.51	12.7
Northumberland	4,266	7,190	6,410	0.94	1.40	1.65	10.7
Oxford	7,364	8,374	8,297	1.34	1.48	1.64	13.9
Parry Sound	270		3,850	1.12		1.67	21.7
Prescott	2,831	3,688	4,788	1.52	1.40	1.89	37.5
Simcoe	6,973	12,096	12,468	1.11	1.47	1.64	18.2
Perth	6,791	9,218	8,104	1.30	1.62	1.53	22.8
Prince Edward	3,043	3,832	3,570	1.36	1.39	1.68	28.4
Wellington	9,088	8,789	8,187	1.36	1.10	1.52	28.8

TABLE V.
NUMBER OF CERTAIN IMPLEMENTS AND NUMBER PER FARM BY COUNTIES, 1871

COUNTY	Total Number of Implements						No. of Farms	Number of Implements per Farm					
	Year of rural Maximum Population	Vehicles for transport	Ploughs, Harrows and Cultivators	Reapers and Mowers	Horse Rakes	Threshers		Vehicles for transport	Ploughs, Harrows and Cultivators	Reapers and Mowers	Horse Rakes	Threshers	Average acreage of improved land per farm
NOVA SCOTIA													
Annapolis	1881	4,636	2,922	69	241	23	2,651	1.75	1.10	0.026	0.091	0.009	50.8
Antigonish	1881	3,367	1,822	24	98	21	2,311	1.46	0.79	0.010	0.042	0.009	46.7
Cape Breton	1881	4,013	2,091	7	40	15	3,106	1.29	0.67	0.002	0.013	0.005	25.4
Colchester	1871	6,422	3,424	271	541	61	3,201	2.01	1.07	0.085	0.169	0.019	41.2
Cumberland	1881	5,416	3,161	265	537	82	3,223	1.68	0.98	0.082	0.167	0.025	43.5
Digby	1881	3,651	1,537	3	36	15	2,281	1.60	0.67	0.001	0.016	0.007	43.2
Guysborough	1881	2,692	875	12	15	5	2,255	1.19	0.39	0.005	0.007	0.002	19.4
Hants	1871	4,881	2,964	202	614	35	2,549	1.91	1.16	0.079	0.241	0.014	47.4
Inverness	1881	5,115	2,987	15	44	37	3,259	1.57	0.92	0.005	0.014	0.011	39.5
Kings	1881	5,861	4,417	189	568	22	2,845	2.06	1.55	0.066	0.200	0.008	52.7
Lunenburg	1881	6,357	2,631	9	15	18	3,298	1.93	0.80	0.003	0.005	0.005	28.1
Pictou	1871	7,246	4,013	158	742	118	3,810	1.90	1.05	0.041	0.195	0.031	41.9
Queens	1891	2,028	580	5	9	4	1,180	1.72	0.49	0.004	0.008	0.003	21.2
Richmond	1881	1,663	609	2	3	1	1,817	0.64	0.34	0.001	0.002	0.001	16.8
Shelburne	1881	1,760	386	4	1	2	1,908	0.92	0.20	0.002	0.001	0.001	7.3
Victoria	1881	1,686	1,295	5	36	3	1,578	1.07	0.08	0.003	0.023	0.002	28.3
Yarmouth	1881	2,916	1,396	21	25	7	2,182	1.34	0.64	0.010	0.011	0.003	23.3
NEW BRUNSWICK													
Albert	1881	2,536	1,539	40	74	28	1,515	1.67	1.02	0.026	0.049	0.018	39.7
Carleton	1881	5,636	3,053	147	311	167	2,689	2.10	1.14	0.055	0.116	0.062	44.1
Charlotte	1871	5,474	2,756	37	175	29	3,021	1.81	0.91	0.012	0.058	0.010	32.7
Kent	1911	4,456	3,147	8	50	78	2,686	1.66	1.17	0.003	0.019	0.029	27.7

TABLE V. (Continued)
NUMBER OF CERTAIN IMPLEMENTS AND NUMBER PER FARM BY COUNTIES, 1871

COUNTY	Total Number of Implements						No. of Farms	Number of Implements per Farm					
	Year of rural Maximum Population	Vehicles for transport	Ploughs, Harrows and Cultivators	Reapers and Mowers	Horse Rakes	Threshers		Vehicles for transport	Ploughs, Harrows and Cultivators	Reapers and Mowers	Horse Rakes	Threshers	Average acreage of improved land per farm
NEW BRUNSW'K, con.													
Kings	1881	8,536	6,500	137	772	102	3,560	2.40	1.83	0.038	0.217	0.029	58.3
Queens	1881	4,219	3,457	80	252	61	2,009	2.10	1.72	0.040	0.125	0.030	49.4
Westmorland	1891	7,204	4,647	186	364	149	3,663	1.97	1.27	0.051	0.099	0.041	40.9
York	1881	6,519	5,025	95	269	60	3,083	2.11	1.31	0.031	0.087	0.019	40.0
QUEBEC													
Bagot	1891	6,984	2,815	56	370	186	2,117	3.30	1.30	0.026	0.175	0.088	41.0
Bellechasse	1911	9,377	4,581	22	10	469	2,370	3.96	1.93	0.009	0.004	0.198	47.5
Berthier	1881	9,469	2,881	24	153	393	2,307	4.10	1.25	0.010	0.066	0.170	51.2
Brome	1881	4,209	3,022	180	257	38	2,122	1.98	1.42	0.085	0.121	0.018	50.9
Chateauguay	1861	5,972	3,556	242	504	433	1,841	3.24	1.93	0.131	0.274	0.235	59.5
Compton	1901	4,075	3,410	156	256	51	2,100	1.94	1.62	0.074	0.122	0.024	50.2
Deux Montagnes	1851	8,495	3,909	66	226	432	1,731	4.91	2.26	0.038	0.131	0.250	63.9
Huntingdon	1861	3,805	2,790	249	434	225	2,089	1.82	1.34	0.119	0.208	0.108	59.4
Iberville	1861	4,971	3,298	184	517	153	1,659	3.00	1.99	0.111	0.312	0.092	58.8
Joliette	1891	8,494	4,719	23	102	363	2,648	3.21	1.78	0.009	0.039	0.137	51.2
Laprairie	1851	4,962	3,163	225	360	311	1,266	3.92	2.50	0.179	0.284	0.246	69.6
L'Assomption	1861	9,619	2,561	52	311	458	1,722	5.59	1.49	0.030	0.181	0.266	64.9
Maskinongé	1881	6,570	4,887	27	97	278	1,741	3.77	2.81	0.016	0.056	0.160	50.3
Montcalm	1861	5,738	2,094	34	197	252	1,714	3.34	1.22	0.02	0.11	0.15	57.6
Montmagny	1921	7,079	3,051	26	65	351	1,471	4.81	2.07	0.018	0.04	0.24	39.3
Napierville	1861	4,351	3,275	84	225	303	1,344	3.24	2.43	0.062	0.17	0.22	60.9

Nicolet	1891	8,963	4,441	36	114	311	2,820	3.18	1.57	0.012	0.040	0.11	41.8
Richelieu	1891	6,560	3,318	31	106	286	1,554	4.22	2.14	0.02	0.068	0.18	58.0
Rouville	1881	6,880	4,738	149	548	224	2,100	3.28	2.25	0.071	0.26	0.11	55.0
Soulanges	1861	4,701	2,539	43	100	225	1,322	3.55	1.92	0.032	0.076	0.17	52.6
Stanstead	1881	4,218	3,211	310	404	80	1,799	2.34	1.78	0.17	0.22	0.044	61.1
Vaudreuil	1861	4,750	2,702	59	87	212	1,145	4.15	2.36	0.05	0.076	0.18	55.1
Vercheres	1861	7,920	4,954	105	411	390	1,595	4.96	3.11	0.065	0.26	0.24	62.8
Wolfe	1911	2,555	1,069	10	8	17	1,390	1.84	0.77	0.007	0.006	0.012	36.3
Yamaska	1881	6,853	3,670	55	78	268	1,811	3.78	2.02	0.030	0.043	0.15	49.0
ONTARIO													
Addington	1861	4,511	4,249	205	401	205	2,998	1.50	1.42	0.068	0.13	0.068	44.8
Bruce	1881	7,948	8,486	133	198	360	6,339	1.25	1.34	0.02	0.03	0.057	44.5
Dundas	1881	3,893	4,168	311	612	325	2,197	1.77	1.89	0.14	0.28	0.15	52.0
Durham	1861	7,712	7,135	1,428	1,883	343	3,735	2.07	1.91	0.38	0.50	0.092	65.2
Elgin	1871	8,463	8,535	1,337	1,833	277	4,563	1.83	1.84	0.29	0.40	0.060	49.5
Frontenac	1891	3,311	3,852	464	707	215	1,763	1.88	2.18	0.26	0.40	0.12	62.9
Glengarry	1881	3,737	3,775	212	266	358	2,429	1.54	1.55	0.087	0.11	0.15	46.8
Grenville & Leeds	1861	8,587	9,417	1,055	1,483	334	6,233	1.38	1.51	0.17	0.24	0.53	Gr. 50.0 Ls. 52.2
Grey	1881	9,882	10,063	199	190	358	8,432	1.17	1.19	0.024	0.022	0.042	43.0
Hastings	1881	9,199	9,605	586	775	516	5,353	1.72	1.79	0.11	0.14	0.096	40.9
Huron	1881	11,976	12,801	995	1,335	591	8,036	1.49	1.59	0.12	0.17	0.73	48.3
Lambton	1891	6,081	5,453	556	823	181	3,801	1.60	1.43	0.15	0.22	0.48	38.0
Lanark	1861	5,954	5,527	407	678	176	3,599	1.65	1.53	0.11	0.19	0.049	89.4
Lennox	1851	3,331	5,192	556	933	329	1,772	1.88	2.93	0.31	0.53	0.19	70.7
Manitoulin	1901	171	58	—	1	1	300	0.57	0.19	—	0.003	0.003	9.7
Norfolk	1871	6,769	7,278	948	1,225	228	4,161	1.63	1.75	0.23	0.29	0.055	46.3
Northumberland	1871	7,919	7,944	713	1,262	381	4,536	1.74	1.75	0.16	0.28	0.086	55.7
Oxford	1871	10,437	10,239	1,715	2,472	442	5,489	1.90	1.86	0.31	0.45	0.08	55.6
Perth	1881	9,213	9,363	1,193	1,310	729	5,202	1.77	1.79	0.23	0.25	0.14	53.2
Prince Edward	1861	4,345	6,040	718	885	314	2,231	1.95	2.71	0.32	0.39	0.14	73.3
Simcoe	1891	10,530	9,402	1,262	697	313	6,274	1.68	1.49	0.20	0.11	0.050	48.8
Victoria	1881	4,739	5,090	464	767	206	3,611	1.31	1.41	0.13	0.21	0.057	50.2
Wellington	1871	11,149	11,201	1,330	1,847	651	6,698	1.66	1.67	0.20	0.27	0.097	57.3

TABLE VI.
COMPARISON OF CENSUS DIVISIONS IN MANITOBA AND ALBERTA WHICH HAVE REACHED MAXIMA OF RURAL POPULATION
AND OF SOME WHICH HAVE NOT AS TO CERTAIN IMPLEMENTS, 1931

			Binders		Combines		Headers		Tractors		No. of persons employed	
			per farm	per 100 acres imp.	per farm	per 100 acres imp.	per farm	per 100 acres imp.	per farm	per 100 acres imp.	per farm	per 100 acres imp.
Manitoba.	Not yet	Div.	7	0.52	—	—	0.003	0.001	0.33	0.14	1.64	0.71
	"	"	9	0.63	—	—	0.005	0.005	0.27	0.25	1.82	1.68
	1921	"	10	0.89	—	—	0.0009	0.001	0.26	0.12	1.50	0.86
	Not yet	"	11	1.03	0.003	0.001	0.0009	0.0005	0.31	0.16	1.13	0.59
	1921	"	12	0.35	0.001	0.003	0.004	0.01	0.074	0.27	1.83	6.68
	1921	"	13	0.63	—	—	0.0003	0.0004	0.109	0.14	1.67	2.15
	Not yet	"	14	0.82	0.002	0.001	0.0007	0.0005	0.18	0.14	1.57	1.24
Alberta—	1921	"	1	1.39	0.14	0.43	0.15	0.05	0.40	0.1	1.33	0.42
	Not yet	"	2	0.81	0.041	0.016	0.018	0.008	0.29	0.1	1.57	0.68
	1921	"	3	0.72	0.058	0.020	0.15	0.06	0.32	0.1	1.32	0.49
	Not yet	"	4	1.18	0.12	0.032	0.041	0.01	0.45	0.1	1.48	0.40
	1921	"	5	0.88	0.057	0.02	0.043	0.01	0.28	0.09	1.21	0.40
	1921	"	6	1.01	0.053	0.02	0.022	0.007	0.40	0.1	1.57	0.53

TABLE VII.

POPULATION AND NUMBER OF CHILDREN PER MARRIED PERSON 1851, 1931

Counties having maximum rural population in —	Total Popula- tion in 1851	No of chil- dren under 15 yrs. per married person in 1851	Total Popula- tion in 1931	No of chil- dren under 15 yrs. per married person in 1931
1851				
Deux Montagnes	18,352	1.4	14,284	1.0
Laprairie	15,216	1.4	13,491	1.0
1861				
Chateauguay	17,192	1.5	13,125	0.8
Huntingdon	15,190	1.6	12,345	0.8
Iberville	14,861	1.4	9,402	1.0
L'Assomption	16,866	1.3	15,323	0.9
Montcalm	12,824	1.4	13,865	1.0
Napierville	13,541	1.4	7,600	1.0
Soulanges	11,512	1.5	9,099	1.0
Vaudreuil	9,917	1.5	12,015	0.9
Verchères	14,465	1.3	12,603	1.0
Durham	30,732	1.3	25,782	0.5
Grenville	20,707	1.4	16,327	0.5
Lennox & Addington	23,120	1.3	18,883	0.5
1881				
Brome	9,634	1.2	12,433	0.7
Rouville	17,935	1.4	13,776	0.9
Dundas	13,811	1.3	16,098	0.6
Prince Edward	18,887	1.3	16,693	0.5
1891				
Bagot	13,152	1.5	16,914	1.0
Glengarry	17,596	1.4	18,666	0.9
1901				
Hastings	31,977	1.3	58,846	0.7
Prescott	10,487	1.5	24,596	1.0
1911				
Nicolet	20,218	1.4	28,673	1.1
Simcoe	23,710	1.6	83,667	0.6
1921				
Compton	7,006	1.2	21,917	1.0
Montmagny	11,883	1.4	20,239	1.2
Elgin	25,418	1.2	43,436	0.5

TABLE VIII.

COMPARATIVE STATEMENT OF WORKERS IN CERTAIN SELECTED OCCUPATIONS
1871 - 1931

Occupation	1871	1881	1891	1911	1921	1931	Cities 1931†
PRINCE EDWARD ISLAND							
Blacksmiths	—	623	484	263	259	162	—
Boot and shoe makers*	—	426	275	93	81	44	—
Brush and broom makers	—	1	1	—	3	1	—
Cabinet and furniture makers	—	102	69	22	2	5	—
Carpenters and joiners	—	1,094	1,117	582	369	592	—
Carriage builders and repairers	—	161	157	58	4	13	—
Coopers	—	207	107	35	13	10	—
Fishermen	—	791	914	1,367	1,181	1,448	—
Hunters and trappers	—	5	—	2	1	—	—
Mariners (water transportation)	—	773	557	434	372	253	—
Millers	—	160	164	70	17	22	—
Mining†	—	4	24	14	8	—	—
Painters and glaziers	—	117	139	125	148	156	—
Saddle and harness makers	—	97	80	43	20	20	—
Ship and boat builders§	—	249	162	22	14	—	—
Tailors and tailoresses	—	455	453	277	84	79	—
Tanners and curriers	—	75	48	12	2	—	—
NOVA SCOTIA							
Blacksmiths	1,891	2,042	1,883	1,237	1,493	936	66
Boot and shoe makers*	1,988	1,707	1,372	791	596	303	50
Brush and broom makers	104	41	32	34	4	15	12
Cabinet and furniture makers	233	202	229	215	80	70	14
Carpenters and joiners	4,440	4,960	5,288	3,992	4,456	4,601	606
Carriage builders	280	343	526	382	47	65	8
Coopers	1,008	1,094	864	689	376	520	35
Fishermen	10,772	13,631	14,478	14,663	12,351	11,397	82
Hunters and trappers	175	112	71	35	30	123	—
Mariners (water transportation)	7,952	7,662	5,813	4,794	4,284	4,207	1,296
Millers	596	474	270	101	27	20	1
Mining†	2,120	2,728	5,753	15,955	14,069	14,998	13
Painters and glaziers	358	502	771	895	1,195	1,272	305
Saddle and harness makers	208	241	236	129	38	49	5
Ship and boat builders§	2,109	1,731	1,693	902	1,464	—	—
Tailors and tailoresses	953	1,164	1,557	1,328	411	337	64
Tanners and curriers	366	266	228	92	7	5	—
NEW BRUNSWICK							
Blacksmiths	1,277	1,331	1,037	766	944	658	47
Boot and shoe makers*	1,357	1,173	845	534	550	221	51
Brush and broom makers	43	24	48	150	150	55	29
Cabinet and furniture makers	181	205	126	64	29	46	16
Carpenters and joiners	2,455	2,762	2,419	2,340	2,794	2,833	424
Carriage builders	220	207	317	183	20	17	2
Coopers	248	201	212	89	47	51	26
Fishermen	1,675	1,844	2,926	2,816	2,873	4,280	41
Hunters and trappers	148	94	39	32	80	161	1
Mariners (water transportation)	2,311	2,328	2,050	1,679	1,341	893	427
Millers	1,593	275	158	130	29	32	3
Mining†	121	121	109	441	542	933	10
Painters and glaziers	312	445	457	608	763	857	222
Saddle and harness makers	204	187	182	128	63	47	10

TABLE VIII. (Continued)

COMPARATIVE STATEMENT OF WORKERS IN CERTAIN SELECTED OCCUPATIONS
1871 - 1931

Occupation	1871	1881	1891	1911	1921	1931	Cities 1931†
NEW BRUNSWICK, con.							
Ship and boat builders§	1,161	1,064	742	302	95	—	—
Tailors and tailoresses	837	937	671	754	218	184	69
Tanners and curriers	256	164	201	72	20	25	2
QUEBEC							
Blacksmiths	4,629	5,437	5,332	4,812	5,618	4,545	1,434
Boot and shoe makers*	6,062	6,973	8,168	9,133	8,598	2,615	1,225
Brush and broom makers	202	69	76	293	43	77	68
Cabinet and furniture makers	925	1,359	936	3,582	496	606	423
Carpenters and joiners	10,693	12,763	13,230	12,313	19,099	24,793	12,419
Carriage builders	860	1,343	1,943	1,397	383	403	148
Coopers	721	674	466	234	83	133	110
Fishermen	4,995	3,935	3,433	3,574	3,673	4,072	7
Hunters and trappers	1,187	1,124	853	871	343	2,395	18
Mariners (water transportation)	4,442	5,029	4,157	7,003	6,832	8,804	4,566
Millers	1,473	1,370	1,102	751	278	283	66
Mining†	151	391	1,577	3,498	2,971	6,130	405
Painters and glaziers	1,148	1,757	2,760	5,284	6,504	10,991	7,523
Saddle and harness makers	720	759	736	932	323	340	129
Ship and boat builders§	399	201	756	630	1,674	—	—
Tailors and tailoresses	1,443	1,911	2,327	6,001	3,648	4,532	3,751
Tanners and curriers	1,176	1,537	1,929	1,306	289	422	238
ONTARIO							
Blacksmiths	7,897	10,030	8,806	5,926	6,272	5,331	1,376
Boot and shoe makers*	6,716	6,961	5,308	4,530	5,645	2,207	960
Brush and broom makers	348	332	341	614	349	359	158
Cabinet and furniture makers	2,057	2,799	2,804	5,189	3,430	2,419	1,022
Carpenters and joiners	14,993	17,626	20,185	19,468	19,494	25,944	9,164
Carriage builders	3,025	3,586	3,926	3,341	501	502	202
Coopers	2,472	2,404	1,676	774	343	434	154
Fishermen	920	766	1,421	1,497	2,025	2,775	19
Hunters and trappers	1,038	914	1,060	2,228	366	3,520	8
Mariners (water transportation)	3,133	3,545	3,387	6,294	5,017	7,641	1,577
Millers	3,472	3,294	2,484	2,186	912	866	89
Mining†	286	493	1,082	13,761	6,456	14,850	405
Painters and glaziers	2,298	4,104	5,374	8,019	10,394	14,402	7,045
Saddle and harness makers	1,970	2,222	2,181	1,721	497	542	163
Ship and boat builders§	581	689	727	1,408	1,815	—	—
Tailors and tailoresses	4,495	7,339	9,536	11,285	3,797	4,853	3,493
Tanners and curriers	997	995	1,163	1,425	725	905	242

* Boot and shoe makers exclusive of machine operators in 1931.

† Mining is exclusive of quarries, gas, oil and salt.

§ Shipbuilders (except boat and canoe) not available by occupation in 1931; apprentices included wherever shown.

¶ The cities included in this survey are Halifax, St. John, Montreal, Quebec, Three Rivers, Verdun, Brantford, Hamilton, Kitchener, London, Ottawa, Toronto and Windsor. The figures are not available for the other urban centres.

POPULATION MOVEMENTS IN CANADA 1921-31, AND THEIR IMPLICATIONS

W. B. HURD

For half a century after Confederation Canada was dominated by a passion for population. No intelligent Canadian doubted that the country's paramount need was more people. More people meant expanding domestic markets, higher land values and bigger and better real estate booms, additional railway traffic, an enlarged capacity to pay taxes and generally greater prosperity all round. It soon became apparent that natural increase of the native born was altogether too slow to keep pace with the national ambition. Besides, as time passed, the birth rate declined, particularly in those classes most interested in population growth. A supplementary source of population was looked for and in accordance with sound biblical precedent, runners were sent out into the highways and by-ways to invite all and sundry to the wedding feast. The nation became truly oriental in its hospitality providing wedding garments in the form of bonused transportation and other premiums to preferred guests, and all went merrily until someone discovered that our governments and railways were merely subsidizing Cook's tours for about two-thirds of the immigrants brought into the country and that losses of native sons and daughters to the United States and other countries nearly equalled the number of newcomers who could be induced to become a permanent part of our national family. For some time it seemed that little or nothing could be done about it, but when it became evident that Canada was accumulating, among other things, a large surplus of wheat, the situation aroused wide public interest and a reversal of policy was gradually brought about. From the point of view of the public at large the quantitative aspect of our population problem to all intents and purposes was solved, at least for the time being.

Since then Canada has been otherwise engaged. Her unemployment and other difficulties incident to the changed

world economy and the associated business depression, have so engrossed her attention that the subject of population has fallen into the background. Of course, it is a matter of common knowledge that Great Britain and certain of the older countries, which during the past three-quarters of a century had built up population structures in response to expanding world markets, were having difficulty in adjusting themselves to the post-war reversion to eighteenth century mercantilism. Whether Canada, a new country, is faced with a similar problem has not yet received serious attention and it is with the purpose of raising that question that the present study of population movements was undertaken.

Population movements in Canada assume a magnitude and variety not commonly realized. Of these movements some are quite large and merit special attention, notably the inward and outward flow of foreign born,¹ the interchange of population between city and city and province and province, the exodus from the farm to the city and the return movement to the land, the emigration of native Canadians abroad and the offsetting influx of repatriated Canadian born. Superimposed on the foregoing is the restless and more or less aimless backward and forward trek of that increasing company of gentlemen of the road. These currents and cross-currents continually intermingle, sometimes counteracting, sometimes reinforcing one another so that to isolate them is often impossible; and even when success in delimiting some phase of the movement appears to have been achieved, it is the part of wisdom to view one's results with a good deal of scepticism, at least until they have survived the scrutiny of a number of critical minds.

Much valuable work has already been done in this field both by officials of the Dominion Bureau of Statistics and by students of population in the United States, so that one is not entirely without precedents in the matter of method and technique. The major interest, however, will lie in the implications of these movements, and out of consideration for my listeners as well as because of the necessary time limita-

¹ The term "foreign born" as used in this paper includes persons born in the British Isles and British possessions as well as persons born in foreign countries.

tion, the discussion of technical details will be relegated, for the most part, to footnotes.

INTER-PROVINCIAL MIGRATION

The first type of movement to be examined is the inter-provincial migration of native born Canadians. The old slogan, "go west, young man," has left its mark on the decennial census tabulations of Canadian born by province of residence and province of birth. These tables make possible the setting up of periodic balance sheets showing the net gain or loss for each province on the movement. The balance sheet at the close of the first decade of the present century reveals the fact that every province east of the Great Lakes had

TABLE I
Balance Sheet of Interprovincial Migration of Canadian Born
as at the 1931, 1921 and 1911 Census Dates

Province	Nativeborn in Canada by province of birth, 1931	Canad. born resident in province* 1931	Net Gain or Loss† at Specified Census Dates		
			1931	1921	1911
Pr. Edward Isl'd	99,738	85,249	— 14,489	— 15,299	— 12,754
Nova Scotia	507,238	470,779	— 36,459	— 26,904	— 20,645
New Brunswick	403,054	383,712	— 19,332	— 12,935	— 12,423
Quebec	2,696,210	2,621,273	— 74,937	— 98,943	— 84,314
Ontario	2,794,718	2,624,250	—170,468	—221,820	—219,106
Manitoba	463,582	463,096	— 486	+ 35,570	+ 54,101
Saskatchewan ...	501,946	602,220	+100,274	+141,857	+133,832
Alberta	336,670	425,167	+ 88,497	+102,012	+ 81,593
British Columbia	247,739	373,849	+126,110	+ 95,954	+ 78,703

* The figures shown in this column are smaller than those shown in the census by virtue of the deduction of persons failing to state province of birth. These amounted to 6,521 in 1931, 18,368 in 1921, and 23,502 in 1911.

† Minus sign (—) signifies net loss; plus sign (+), net gain. Total gains and losses do not exactly balance because of the omission of the Yukon and North West Territory.

experienced net losses of native born, and that the four western provinces recorded net gains on the movement amounting in all to some 349,000. By 1921, the net gain to the west had increased to 375,000 indicating that the east had not only replaced the deaths occurring among the surplus easterners in the west, but had added 26,000 to the total. Then came a

change. By 1931, the eastern balance in the four western provinces as a whole had declined by over 60,000, and that in the three prairie provinces by 100,000. Of course some died, and in order to discover whether the westward trek has at last reversed, it is necessary to determine to what extent these net balances were affected by loss through deaths.² This was attempted with the aid of the Vital Statistics reports and with the following results: the prairie provinces experienced during the decade an estimated net loss of native born to other

² To make this correction and thus arrive at the net movement, deaths during the decade of persons born in each province but resident elsewhere in Canada were estimated from the Vital Statistics Reports. Deaths in each province of persons born in other provinces were similarly computed. The difference between the two sets of figures was taken to represent the expected change in the respective balances on this score. The method of estimation was rather rough and ready but sufficiently accurate for the purpose in hand. Since complete records were not available for the whole period, official figures for Quebec being published only from 1926 on, *average* yearly deaths were estimated from the Vital Statistics Reports of the two census years and these were multiplied by ten to secure total deaths for the decade. The 1921 figures for Quebec were interpolated for.

The expected changes in the balances attributable to deaths were then compared with the actual as shown by the census figures (columns 3 and 4 of Table I), and the net movement occurring between the two census dates determined. One slight error in the results so obtained arises out of the fact that a number failed to report province of birth at both census dates, 6,521 in 1931 and 18,368 in 1921. The effect of the presence of any considerable number of non-stated birthplace would seem to be to minimize the net balances generally, though by only a fraction of their number. As a matter of fact, assuming the "non-stated" to be a fair sample of the Canadian born as a whole, the error entering into the balances would amount to only about 10 per cent of the number of such persons or approximately 650 in 1931 and 1,800 in 1921. These figures are negligible when compared with aggregate balances of 630,000 and 750,000 respectively as shown in Table I, or even with the change in the aggregate balances during the decade (150,000). The same type of reasoning would seem to apply to the presence of persons of unstated place of birth in the mortality statistics.

Nevertheless, it is doubtful whether the following figures on net migration should be depended upon further than to the nearest thousand, even if that far. They can be checked by means of Life Tables as soon as the 1931 census tabulations by birthplace, age and province of birth are available. The estimated net migration of native born obtained by the present method is as follows:

	Number		Number
Prince Edward Island	— 970	Manitoba	—29,076
Nova Scotia	—12,995	Saskatchewan	—31,753
New Brunswick	— 7,487	Alberta	— 5,535
Quebec	+ 9,423	British Columbia	+41,016
Ontario	+35,702		

— signifies net emigration of native born to other provinces; + signifies net immigration of native born from other provinces.

provinces in Canada of approximately 66,000. Some of these went to British Columbia which gained 41,000³ and the balance went east. Ontario and Quebec showed a net gain of about 45,000, part of whom came from the west and part from the maritime provinces which in turn lost approximately 21,000. It should be borne in mind that this movement represents an internal shifting of native born Canadians from province to province. The route taken, whether direct or via the United States, would seem to be immaterial. Moreover, it is over and above any similar (or contrary) movement of foreign born.

What do the figures imply? They demonstrate, and apparently conclusively, not only that the net migration from the two central provinces to the prairies has stopped, but that it has been definitely reversed. They suggest that eastern Canada will be without a western outlet for her excess population so long as conditions exist in the agricultural west comparable to those obtaining during the three or four years prior to 1931. In this connection it is significant that the agricultural situation in the prairie provinces has grown materially worse since that time. The figures further suggest that just as the greater relative prosperity of the west in the boom days of past decades gave rise to a sustained movement of virile young easterners to the prairie provinces, so too a greater degree of prosperity (or a lesser degree of depression) in central Canada may result in an eastern movement of westerners and a western movement of maritimers to compete in the labor markets of Ontario and Quebec. Tariffs and effective minimum wage legislation may protect the worker in the east from foreign labor, but neither of these devices would seem to offer any promise of protection from the pressure of young native Canadians from less prosperous parts of the Dominion.

RURAL-URBAN MIGRATION

Internal pressure from a different direction and on a much larger scale is indicated by an analysis of rural-urban

³ Climate is an important factor in drawing persons to British Columbia. This applies not only to older persons who are in a position to retire, but also to the transient unemployed.

migration. To measure this movement, recourse must be had to the indirect method of deriving an expected rural population figure for 1931 from 1921 data and then comparing the anticipated population with the actual as recorded in the 1931 census. The difference presumably represents the approximate net emigration from rural parts during the ten-year period. The 1921 census tabulation of rural males and females by five-year age groups was taken as the point of departure. A ten-year survival ratio for each age and sex group was computed from the 1931 all-Canada Life Table prepared by Mr. M. C. MacLean of the Dominion Bureau of Statistics, and the expected number of survivors in 1931 was calculated for each group of the 1921 population. By making comparisons with the appropriate figures in the 1931 census tables, it was possible to determine the excess (or deficiency) of expectation over realization for each age and sex category.⁴ This procedure was repeated for the urban population as a whole and for the foreign born separately, both rural and urban. The figures on net migration so obtained take no account of the movement of children born in Canada during the decade. The latter movement seems incapable of measurement, at any rate by the present method; but to the extent that it paralleled that of persons of higher ages, and the presumption is that it did, the subsequent estimates of net rural-urban migration tend to understate rather than overstate the case.

The first significant conclusion in this phase of the investigation is that the net movement from rural Canada during the ten-year period amounted to some 408,000. The expected rural population exceeded the actual by that amount

⁴ The 10-year survival ratio for each 5-year age and sex group was computed from the *lx* columns of the 1931 Life Tables in the following manner: total males living to exact age 0-4 inclusive=455,770 by addition; total for age group 10-14 inclusive=432,265, similarly by addition. The proportion of the male population group 0-4 years surviving ten years was taken as $432,265 \div 455,770$ which works out to approximately .950. Similar ratios were computed for the successive 5-year age groups, male and female. Each age group of the 1921 rural population was multiplied by its appropriate survival ratio as computed above giving the expected number of survivors in 1931. Allowance was made for those with "age not stated" in each case. The 1921 age group 90-94 was estimated by means of the tabulations by single ages and sex in the 1921 census.

despite the fact that the actual had been materially supplemented by immigration during the decade. The net movement of *native* born was greater than the above figure by a number equal to the amount by which the 1931 rural population had been augmented through immigration from abroad.⁵ The estimated net inward movement of foreign born to rural Canada during the period amounted to 142,000, and when this figure is added to the 408,000 a net exodus of 550,000 native born appears to have occurred.⁶ Some idea of the relative importance of this movement may be gained from the fact that 550,000 is equivalent to 71.2 per cent of the estimated natural increase of the rural population during the ten years. The 550,000 represents a net movement of native born from rural parts; that is, the excess by which the outward stream exceeded the backward flow from the cities.⁷

⁵ Total rural foreign born resident in Canada in 1931 equalled 926,000. Expected survivors in 1931 of 1921 rural foreign born equalled 784,000. The net movement of immigrants into rural parts during the decade was therefore 142,000 which represents the number by which the inward movement exceeded any outward movement of earlier foreign arrivals resident in Canada in 1921.

In computing the expected immigrant population for 1931 from the 1921 figures, it was assumed that the survival ratios of the All-Canada Life Table were equally applicable to the several age groups of foreign born. If the death rates for immigrants, age for age, were greater than those for the population as a whole, the above estimate on net immigration is to that extent too small; if they were lower, it is too large. Moreover, the age distribution of the 1921 foreign born was taken as a basis for predicting expected survivors in 1931. In so far as replacements in the 1921 immigrant population from outside sources took place at lower ages, the computed expectation was somewhat lower than it should have been and the figure on net immigration somewhat larger. This type of error applies equally to the estimates for the net inward movement of foreign born to urban centres and to a lesser degree to figures on net rural-urban migration, etc., derived from the 1921 population as a whole (including foreign and native born). Such errors are inherent in the method but they tend to be offset by neglecting the movement of children born in Canada during the decade. The results may, therefore, be taken as reliable within a narrow margin or error.

⁶ Perhaps the simplest way of seeing this is to think of the 142,000 immigrants as having taken the places of an equal number of Canadian born who otherwise would have been in the 1931 rural population. It is not necessarily implied that the net inward movement of foreign born caused an additional rural-urban migration of native born equivalent to that number; the presence of these immigrants from outside the country merely indicates that such an additional migration of natives had actually occurred.

⁷ The monetary contribution made by the country to the city by virtue of this migration is worthy of notice. Taking the United States Bureau of Agricultural Economics' estimate of \$2,000 as the cost of

The above figures take no account of the rural-urban movement of immigrants who arrived during the decade and there are reasons for believing that the latter movement assumed fairly large proportions, especially toward the end of the period. While its extent is incapable of precise measurement, an intelligent guess at its magnitude is possible by comparing the records of occupation of immigrants arriving between 1921 and 1931,⁸ with the rural-urban distribution of such of them as were still resident in Canada in 1931. The former statistics suggest that as many as 50 per cent may have gone to the farm or to other rural occupations in the first instance. Of the estimated net inward movement of foreign born 142,000 or only 27 per cent were resident in rural parts at the close of the decade; 383,000 or 73 per cent were in urban centres. The net movement of immigrant arrivals from country to city, therefore, may well have approached 120,000 and the gross rural-urban exodus of natives and immigrants combined is likely to have been 670,000 and 700,000.⁹ The gross figures are significant as throwing some additional light on the marked degree of mobility of the Canadian population; but our main interest is with the net movement which reflects the underlying forces at work in our social and economic system.

The sex and age distribution of those who left the rural districts is worthy of passing notice. Despite a surplus of 16

rearing and educating a child to 15 years of age in rural parts (the estimate was \$2,000-\$2,500 at pre-depression prices in the United States), and assuming that all of the 550,000 native emigrants were reared and educated in the country and had attained the age of 15 years before emigrating, the net cost to the rural districts of this population export amounted to some \$1,100,000 or about 28 per cent of the farm value of all wheat raised. While most of the benefit accrued in the first instance to Canadian urban centres, it was in large measure passed on to the United States through emigration of native Canadians to that country.

⁸ These figures are available in the *Canada Year Books*. Approximately 46 per cent of immigrant arrivals during the decade were classed as farmers or farm laborers, 8 per cent as general laborers, 10 per cent as domestics, and for 21 per cent the occupation was not given. On the basis of the above figures the estimate that as many as 50 per cent sought rural occupations in the first instance would seem very moderate. Indeed, it is quite probably too low.

⁹ The latter figure is intended to include an indeterminate movement of native born from city to the country which was offset by an equivalent rural-urban movement of native born not included in the net figure of 550,000.

males per 100 females in the rural population of 1921, females constituted 62 per cent of the net emigration and males only 38 per cent. The movement consisted largely of young people. On the assumption that half the emigration occurred during the last four years of the decade, 72 per cent of the females were under 31 years of age at the time of departure, and 47 per cent under 21 years. Corresponding figures for males were 55 per cent and 24 per cent respectively.¹⁰

The question naturally arises as to where these rural emigrants went. In the first instance most of them probably moved to Canadian cities; some stayed there and constituted a net addition to the urban population; some merely replaced urban dwellers who moved to the United States or elsewhere; others passed on out of the country. Their movements cannot be traced in detail but the combined effect on urban population of rural-urban migration, of immigration from abroad and of emigration to other countries is capable of measurement by a technique similar to that used in the former section.

In 1931 urban population exceeded the 1921 figure, plus expected natural increase, by 503,000. The estimated additions to urban population through the net inward movement of foreign born amounted to 383,000. The difference between these figures, or 120,000, represents the net increase in urban native born attributable to a three-way shift of native population, i.e. to the internal movement from country to city, the return of native Canadians from abroad, and to the emigration of native Canadians to the United States and other foreign parts.¹¹

¹⁰ Many factors contribute to the relatively larger movement of females to the city and to their leaving at an earlier age. Among the social causes, preference for urban life *per se* and the greater opportunities for marriage are probably important. Among the economic causes might be mentioned the fact that girls are less useful on the farm while at the same time the urban demand for females, particularly for clerical, domestic and factory work has been relatively greater than that for males. The generally higher educational qualifications of girls in rural districts is mentioned by M. C. MacLean (in an unpublished monograph) as a factor contributing to their emigration at an earlier age.

¹¹ It is interesting to note the sources of new population in urban parts during the decade. Actual increase in urban population 1921-1931 (census figures) 1,222,000

NET EMIGRATION OF NATIVE CANADIANS

An examination of these movements from a somewhat different point of view shows clearly that a large net exodus of natives from Canada occurred during the decade, and to complete the picture an estimate of its magnitude is required. This may be arrived at by a simple manipulation of figures already in our possession. The estimated net movement of native Canadians from rural districts, as stated above, amounted to 550,000. The estimated net increase of Canadian born in urban centres over expectation on the basis of natural increase was 120,000. The indicated net movement of natives out of the country was therefore 430,000.

Here again the distinction must be made between net and gross emigration. The recording of Canadians returning from the United States was begun only in 1924, and between April 1st of that year and March 31st, 1931, some 245,000 native Canadians are reported to have come back to Canada with the intention of remaining. The Dominion Bureau of Statistics' estimate for this movement during the intercensal period is 300,000. In addition, there was a substantial return movement of Canadian born from countries other than the United States so that the gross emigration of natives was greater than the estimated net figure of 430,000 by several hundred thousand. No attempt was made at an accurate estimate of this gross movement because in this instance, as in the case of the other types of population movement, the main interest is centred in the net figures.

Estimated deaths of 1921 urban population during decade.....	350,000
(The deceased were replaced by new persons.)	

Additions to the 1921 population during the decade	<u>1,572,000</u>
--	------------------

Sources of this total—

Actual survivors of children born in urban parts	
during the decade (i.e. urban children 0-9 years	
1931 census)	1,069,000 or 68 per cent
Estimated net inward movement of immigr't born	383,000 or 24 per cent
Net additions of native born from other sources	
(rural-urban migration and repatriation of	
Canadian born)	120,000 or 8 per cent
	<u>1,572,000</u>

During the decade urban population increased 28 per cent.

IMPLICATIONS

Having isolated, and it is hoped with some measure of success, three of the more important varieties of population movement, one is faced with a host of questions regarding their present and future implications. Brief reference has already been made to certain significant aspects of the changing trend of interprovincial migration and it is next proposed to touch briefly on some of the causes of the rural-urban movement and the outlook for its continuation.

What caused a net movement of 550,000 native Canadians from farms and other rural parts in a decade when occupied farm land increased by 23,000,000 acres or 16 per cent and improved land on farms increased by 15,000,000 acres or 21 per cent?¹² Many of the influences which contributed to this movement, particularly the social and psychological, are of such a nature that one's judgment as to their importance could not but reflect a large measure of personal bias and in any case would be conditioned by one's personal observation. The subsequent discussion is, therefore, limited to three aspects of the problem on which a certain amount of statistical evidence is available.

In the first place, the suggestion has been advanced that immigration from abroad is one of the chief causes of the movement of natives off the land. Because of the lower standard of living to which many have been accustomed, immigrants as a group are presumably in a position to out-compete the native born for work as farm laborers. It is also argued that the over-expansion of farm acreage to which immigration has contributed is in a measure responsible for the sorry straits of the native farm operator and his family. Admitting for the sake of argument that immigration may have been a causal factor of some importance, the question arises as to whether the native exodus would be materially reduced by keeping the door closed to rural immigrants during the next few years.

¹² The estimate on net rural-urban migration is not inflated by any seasonal influence since the census (both in 1921 and 1931) was taken in the month of June when farming operations are in full swing.

A tentative answer is found in the following figures. The estimated net inward movement of immigrants of 142,000, to which reference has already been made, was equivalent to only 4.5 per cent of Canada's 1931 rural population over 15 years of age. The decennial increases in occupied and improved farm acreage in terms of 1931 figures were 14 per cent and 17 per cent respectively, and the increase in crop acreage was slightly over the former figure.

A comparison between rural population increase through immigration and farm acreage increase is admittedly crude, but after making reasonable allowances for error, it hardly seems possible that immigration was responsible for much more than a third of the agricultural expansion in Canada during the period.¹³ Assuming a repetition of conditions obtaining over the past ten years, the cutting off of rural immigration might effect a reduction of 142,000 in the rural-urban movement of Canadian born, thus decreasing the figure from 550,000 to 408,000, but this reduction might be offset by a decrease of about one-third in the prevailing rate of agricultural expansion. It also follows from the above figures that if agriculture merely holds its own and other rural employment is not forthcoming, a rural surplus of 800,000 is quite within the realm of expectation during the next decade.

¹³ The net inward movement of foreign born constituted less than 3 per cent of the total rural population (all ages) but inasmuch as the age distribution of immigrant arrivals usually permits of a larger proportion engaging in active employment, total net immigration (all ages) was expressed as a percentage of the rural population 15 years of age and over. This procedure may slightly over-emphasize the importance of immigration as a potential contributor to agricultural and other rural expansion, but the error is smaller than would have occurred through using the former percentage. Acreage increase, particularly crop acreage increase, is taken as reflecting the trend of agricultural production which is what really counts. While not wholly satisfactory, it is the best index available and the error from this cause over a decade is not likely to be large. It is further implied in the comparison that the distribution of new immigrants between the different rural occupations more or less conformed to that of the rural population as a whole, and that the expansion in other rural occupations closely followed that of agriculture. While these assumptions are incapable of verification, at least with data available at the time of writing, they probably introduce an appreciable error; yet in view of the predominant importance of agriculture in the rural economy, the error can hardly be so great as to seriously interfere with the general validity of the conclusions. To be on the safe side, the estimate for the rural surplus under the assumed conditions was reduced from 834,000 to 800,000.

A second contributory factor is the relative severity of the agricultural depression coupled with the more adequate organization and provision for relief in urban centres. It is a matter of common knowledge that the depression hit the rural community somewhat in advance of the city and that the blow was much heavier. To what extent the increased spread between the levels of prosperity in country and city stimulated the rural-urban migration of natives during the depression years immediately prior to the census, is incapable of measurement; but there are reasons for believing that it was not of paramount importance. In 1930, the United States virtually closed down on immigration from Canada by the imposition of a rigorous means test. This action of the United States coupled with declining industrial activity in Canada very quickly brought about an acute urban unemployment situation. Thereafter, the cityward movement was for relief rather than for jobs; and if recent statements of responsible ministers conversant with relief administration may be accepted, the subsequent influx to the cities consisted largely of immigrant born who, because of recent arrival, had not become firmly established on the farm or in other rural occupations. As has already been pointed out, this movement was disregarded in the previously quoted estimates of net rural-urban migration. It seems reasonable to suppose that the movement of rural native born during these depression years was largely confined to persons actually forced off farms and that the normal cityward movement of young Canadians was retarded rather than stimulated by urban unemployment. If such be the case, it is doubtful whether the exodus of native born from country to city was materially increased by the general depression.

This leads to the consideration of a third factor, differential birth rates. According to the 1921 census the number of children under five per 1,000 women of child-bearing age in rural Canada was 680; the corresponding urban figure was 439. By 1931 the ratios had declined to 603 and 374 respectively. Though declining, the rural birth rate is still more than twice greater than that required to supply the demand for rural workers. Of course, in recent years many factors have affected that demand. For example, increased mechan-

ization of agriculture and general improvement in farming technique have reduced the number required to operate the farms. Expanding farm acreage, on the other hand, has tended to increase it. The rise of the mail-order house and the drift of retail business to the urban shopping centre with the building of good automobile roads, has decreased the demand for workers in the small unincorporated rural communities; while the growth of prospecting and mining has operated in the opposite direction. The fact remains, however, that native Canadians, numerically equivalent to 7 out of every 10 children under ten years of age in rural parts, were not needed on the farm or in other rural occupations during the last decade, and even if there had been no immigration from abroad, the surplus would have amounted to 5 out of every 10 children. Relatively high birth rates in the rural parts of Canada apparently constituted a major clause of rural-urban migration, and probably the most important single cause in the period under review.

Furthermore, no improvement in the situation can be effected during the next ten years by a further decline in the birth rate. The excess has already been born and will be coming of working age year by year for the next decade and a half. As a matter of fact, the rural surplus from this cause will be greater in the immediate future than in the past. The urban birth rate, though declining faster than the rural, is still slightly more than adequate to maintain the population in the cities and towns at its present level, and what is more important, it was considerably higher during the last 15 years when the present generation of children was born.

At this point it may be well to summarize the more important conclusions so far reached. First, by the close of the last decade (1921-31) the movement of native Canadians from central Canada to the prairie provinces had not only ceased but had definitely reversed. No similar evidence was adduced concerning the behavior of foreign born but inasmuch as they are more mobile, especially the more recent arrivals, than the native born, it is reasonable to assume that the same applied to them probably to an accentuated degree.

Second, an estimated net rural-urban migration of native Canadians amounting to some 550,000 occurred during the period. Approximately 142,000 of this net migration was attributable to net immigration from abroad. The figures do not include the cityward movement of immigrants arriving during the decade. This latter movement may have reached a total of 120,000. This rural exodus occurred in a period when agriculture expanded between 16 and 21 per cent depending on the method of measurement. Such evidence as was available does not suggest that the estimate on net rural emigration of natives was materially increased, if at all, by that portion of the depression occurring prior to the 1931 census. The movement, therefore, should not be considered as one of temporary origin. It seems to have been the result of forces operating throughout the decade. Of the forces capable of statistical measurement, the most important seems to have been high rural birth rates. The excess of rural population from this cause alone promises to be moderately increased in the present decade. During the past ten years the pressure of surplus rural population on urban centres was largely transferred to other countries, particularly the United States, through an estimated net emigration of Canadian born amounting to 430,000. As far as the United States is concerned this door is now virtually closed and promises to remain closed so long as that country has urban unemployment. That will continue until she succeeds in adjusting her internal industrial and population structure to a more or less self-contained basis or until present nationalistic trade policies are modified. The birth rate in urban Canada as a whole is still more than adequate to maintain population at its present level and was appreciably higher when the present generation of pre-working age children were born.

With these considerations in mind, it is now appropriate to raise the question as to whether or not Canada has a population problem. As matters stand at the moment, the evidence would seem to be definitely in the affirmative. Is that problem likely to become more or less acute in the future? Obviously no single answer can be given. Some light, however, may be thrown on the subject by resolving it into a number of component parts.

Is agricultural expansion likely to continue during the next five or ten years, or is Canadian agriculture already overexpanded in relation to existing and prospective demand? If no further expansion occurs—that is, if agriculture merely hold its own—the estimated net surplus of rural population during the next ten years might be expected to increase to about 800,000. This estimate is on the assumption of a complete cessation of immigration, the absence of any radical change in the type of farming and continued progress in agricultural technique. Whether the latter will occur would seem to depend rather on the inventive genius of man than on any choice the Canadian farmer may have in the matter. If other countries adopt new and more efficient aids to agriculture, Canada will be forced to do so if she is to maintain her relative position in the raw material markets of the world.

Does the back to the land movement offer a way out? During the last three years over 100,000 unemployed persons, including dependents, have been moved from urban centres to the farm. The change has been directly beneficial to those concerned and has reduced urban relief expenditures below what they otherwise would have been. Yet it should not be overlooked that insofar as these settlers produce their own food-stuffs they reduce the domestic markets of previously established agriculturalists, and insofar as they raise cash crops they increase agricultural surpluses thus tending to further impair the financial position of the farming community generally and to stimulate a counterbalancing exodus from the farm. Whether the back to the land movement will be long continued is open to question. It is primarily a relief measure. One result, however, would seem certain so long as it lasts. Increased pressure on the present farming community will be relayed back to the city in the form of increased competition for urban employment, and in view of the excessive mobility of the youth of our Canadian population the shift might be expected to take place with considerable promptness. It hardly seems possible in this age of advanced transportation facilities and universal education, for a peasant agricultural economy to subsist alongside a substantially higher urban standard of living. Continued urban unemployment on a large scale or such a lowering in

the standard of living of urban workers as to make migration to the city no longer attractive to young persons in the country, would seem to be the only means of checking the movement, failing a tremendous development in rural industries other than agriculture.

Up to the present, it has been tacitly assumed that industry in urban centres will be unable to absorb the anticipated rural population surplus. It is conceivable that such might not be the case. Manufacturing costs including real wages might be so far reduced that for a time at least industrial Canada might materially increase its exports of manufactured goods. It is not necessary to examine the repercussions of such a policy on agricultural exports or on the domestic market for manufactures, to show that relief is not likely to be found in that direction so long as the present world mania for higher tariffs continues. Canada has no monopoly on the theory of raising tariffs to protect the employment and standard of living of domestic workers, and the raising of tariffs against her could be effected with much greater speed and much less friction than a downward revision of the real wages of her industrial workers.

One final question remains. Is the return of native Canadians especially from the United States likely to assume its former large proportions and add further to the stresses and strains within our population? The answer to that question depends on one's estimate of Canada's ability to adjust her economic and population structure to the new world conditions with less dislocation, greater speed and greater ultimate success than the United States. In this connection it should not be overlooked that a 40 or 50 or 60 per cent reduction in the foreign commerce of a country like Canada with a normal per capita external trade of say \$240 per annum, might be expected to involve a much greater degree of internal friction and readjustment than the same percentage decline in a country like the United States with a normal per capita figure of \$74.¹⁴ This circumstance coupled with her more limited climatic range and her well-known geographical handicaps, suggests that, in the absence of

¹⁴ Per capita export figures for 1927 used in both cases.

expanding markets for the products of her undeveloped natural resources, Canada's readjustment not only will be relatively greater than that of her southern neighbor but that, other things being equal, her chances of bringing it to a speedy and successful conclusion are likely to be less favorable. Should this inference prove to be well founded, the danger of greatly increased population pressure through the repatriation of Canadians from abroad would seem to be remote.

Such then appear to be the statistics of the case and some of the more obvious implications. No mention has been made of the probable effects of grasshoppers, epidemics, wars or of possible modifications in trade policies or of changes in industry and agriculture, all of which have a bearing on the subject. Nor is any solution offered. In the view of some the problem may solve itself, though just how that might come about is difficult to see at the moment. In any event, it is well to understand the nature of the problems with which we are faced and the present analysis may at least serve the purpose of drawing attention to one phase of the Canadian situation which has not yet received general consideration.

ROUND TABLE CONFERENCE

CONSTITUTIONAL AMENDMENT IN CANADA

A. BRADY, *Chairman.*

H. CARL GOLDENBERG.—“There must be power in the States and the Nation to remould, through experimentation, our practices and institutions, to meet changing social and economic needs,” declared Mr. Justice Brandeis, in a dissenting opinion delivered before the era of the “New Deal.”¹ The doubts as to the existence of such powers in the United States arise from the judicial interpretation of constitutional guarantees of personal liberties and protection of property rights, which, it is held, cannot be infringed upon without due process of law. Social legislation in particular has frequently been declared unconstitutional as constituting such an infringement. A new trend in judicial decisions, however, is now likely because of the Roosevelt social and economic program.

In Canada there is no such limitation of powers. The constitution contains no declarations on natural justice or rights of property or sanctity of contracts. The British doctrine of the sovereignty of parliament is a fundamental rule of the constitution. In conformity with the implications of this doctrine, the courts hold that “the powers distributed between the Dominion and the Provinces by the British North America Act cover the whole area of self-government within the whole area of Canada.”² In other words, the Dominion parliament and the provincial legislatures may between them, generally speaking, legislate on all matters within Canada.

Experience based upon the working of the Canadian constitution teaches, however, that the mere existence of powers to deal with all matters is in itself inadequate until such powers can be effectively and satisfactorily exercised. Since such effective exercise has not been possible in Canada, the economic crisis has given rise to the necessity for the redistribution of legislative powers in order that the constitution of 1867 be made to fit the needs of the people in 1934.

The Fathers of Confederation intended that the division of powers in the British North America Act should provide a flexible constitution. It was to be, said Sir John A. Macdonald, “a mere skeleton and framework that would not bind us down.”³ It therefore conferred a general grant of power upon the Dominion parliament in order to enable it

¹ *New State Ice Co. v. Liebmann*, (1931) 285, United States Reports 311.

² Earl Loreburn, L.C., in *Attorney General of Canada v. Attorney General for Ontario*, (1912) Appeal Cases 571.

³ Sir Joseph Pope, *Confederation Documents* (Toronto: Carswell Co., 1895), p. 59.

to adapt itself to changing conditions in the life of the nation. "In other words," says Professor Kennedy, "the Constitution began with what appeared to the 'fathers' such sufficiently strong central control over the provinces as would render them in their executive and legislative capacities subordinate to the central Government; while the ambit itself of their legislative authority was intended to be such as to leave the vast undefined residuum to the Dominion. . . . We now witness on the North American continent singular political developments. The American Republic began with a theory of State rights. To-day, we watch the ever-increasing growth of federal power. Canada began its political existence with the scales heavily weighted in favour of the central authority. To-day the Canadian provinces enjoy powers greater than those of the States of the American union. In both federations the most cherished aims of the founders have been nullified."⁴

This change has been effected in Canada by the interpretations of the Judicial Committee of the Privy Council which have relegated the residuary powers of the Dominion parliament to the position of a reserve power for use only in national emergencies.⁵ One of the specified provincial powers—"property and civil rights in the province"—which is wide enough to cover nearly all legislation outside of pure criminal law, has been assimilated by the courts to the tenth Amendment of the United States Constitution, and has become the effective residuary clause of the British North America Act. "New subjects as they arose were put under property and civil rights rather than under the Dominion residuary clause. The whole field of social legislation, for example, such as old age pensions, minimum wage acts, laws respecting hours of labor,⁶ factory acts, unemployment insurance and relief, and the like, is provincial. None of these subjects is specifically mentioned in the British North America Act. Even the control of trade and commerce is now considered a matter of property and civil rights in so far as local trade within the province is concerned.⁷ Thus, co-operative institutions, liquor control, hydro-electric power production and distribution, insurance, and other unspecified subjects, belong primarily to the provinces. This is true, not only despite the Dominion residuary clause, but despite also the power to regulate trade and commerce, which is specified in the British North America Act as belonging to the Dominion."⁸

⁴ W. P. M. Kennedy, "Law and Custom in the Canadian Constitution," *The Round Table* (London), December, 1929 (Vol. 20, No. 77), pp. 143-160.

⁵ *Toronto Electric Commissioners v. Snider*, (1925) A. C. 396.

⁶ *In re Legislative Jurisdiction over Hours of Labour*, (1925) Supreme Court Reports 505.

⁷ *Citizens Insurance Co. v. Parsons*, (1881) 82, A. C. 96.

⁸ F. R. Scott, "Social Reconstruction and the British North America Act," League for Social Reconstruction Pamphlet (Toronto: Thomas Nelson & Sons), pp. 6-7.

The world of 1934 is vastly different from that of 1867—at least in matters political, social and economic. This fact is recognized in more recent federal constitutions. The Commonwealth of Australia Constitution Act (1900) gives to the Commonwealth parliament jurisdiction over such matters as:

- invalid and old-age pensions;
- foreign corporations, and trading or financial corporations formed within the limits of the Commonwealth;
- conciliation and arbitration for the prevention and settlement of industrial disputes extending beyond the limits of any one State.

The Weimar Constitution (1919) of the late-lamented German Republic gave to the Reich the power of legislation in respect to:

- poor relief and vagrancy;
- public health;
- the right to work, insurance and protection of workers and other employees, and employment exchanges;
- socialization of natural resources and of economic undertakings, as well as the manufacture, production, distribution, and price-fixing of economic goods destined for public use;
- commerce;
- industry and mining;
- insurance.

It is to be noted that the power to legislate on these matters was not to belong exclusively to the federal government. Article 9 of the Constitution added the provision that:

“In so far as it is necessary to issue uniform regulations, the Reich shall have the power of legislation in respect to:

- (I). Social welfare;
- (II). Protection of public order and safety.”⁹

The trend has apparently been towards wider national powers consistent with the increasing functions of the national government. In Canada too there has been a rapid expansion of economic activities. Many of these are nation-wide in scope. Nevertheless, the emphasis on provincial autonomy, and the decisions of the courts on the distribution of powers under the British North America Act have had the effect of impairing the capacity of the federal government to regulate these activities in the national interest. The control of insurance, which is not included in the constitutional distribution of power, has been denied to the Dominion.¹⁰ The control of combines under the Board of Commerce Act of 1919,¹¹ and of industrial disputes under the Industrial

⁹ H. L. McBain and L. Rogers, *The New Constitutions of Europe* (New York: Doubleday, Page and Co., 1922), pp. 177-178.

¹⁰ *Citizens Insurance Co. v. Parsons*, (1881) 82, A. C. 96; *Attorney General for Ontario v. Reciprocal Insurers*, (1924) A. C. 328.

¹¹ *In re Board of Commerce Act*, (1922) 1 A. C. 191.

Disputes Investigation Act of 1907¹² have been declared ultra vires of the Dominion. The control of a national activity like the grain trade has, in part, been denied to the Dominion¹³ as also the control of through traffic from Dominion to provincial railways.¹⁴ The control of labor in industrial undertakings, and, therefore, social legislation generally, has been declared to be primarily within the competence of the provincial legislatures.¹⁵ A similar decision was reached as to the control of liquor.¹⁶ There is uncertainty in the matter of control of water-power development in the St. Lawrence River. While recent decisions appear to indicate a revived recognition of the general Dominion powers,¹⁷ the outlook is uncertain. Hitherto the effect has been to restrict the federal jurisdiction to matters which were of national interest in 1867, when Canada's social, economic and political development was in its infancy. "Two forces have thus been operating in contrary directions. It has become apparent that to provide effectively for the well-being of the people of Canada as a whole it has become necessary to enlarge the sphere of federal jurisdiction. On the other hand, judicial interpretation of the British North America Act has actually effected a limitation of the powers of the federal government and has held to be invalid authority actually exercised for many years."¹⁸

The economic depression has raised anew the problem of the distribution of legislative powers. Unemployment is national in scope and has required the attention of both the Dominion and the provinces. It has served in fact, although not legally, to obliterate the boundary between their respective jurisdictions. "Yet both political parties agree that labor questions are a purely provincial matter. All that Ottawa does is to vote money for the provinces to spend; the unemployed have to wait until the same matter that was thrashed out in Ottawa gets thrashed out anew in the provincial legislatures and put into the form of a provincial statute. Another example of ten parliaments having to act before a matter of the utmost importance can be done! The present division of powers in regard to labor and social problems is particularly silly since tariffs, trade treaties, immigration, labor problems, unemployment and trade and commerce generally are so intimately con-

¹² *Toronto Electric Commissioners v. Snider*, (1925 A. C. 396.

¹³ *The King v. Eastern-Terminal Elevator Co.*, (1925) S. C. R. 434.

¹⁴ *City of Montreal v. Montreal Street Railway Co.*, (1912) A. C. 333.

¹⁵ *In re Legislative Jurisdiction over Hours of Labour*, (1925) S. C. R. 505.

¹⁶ *Attorney General of Ontario v. Attorney General of Canada*, (1896) A. C. 348.

¹⁷ *Proprietary Articles Trade Association v. Canada* (1931) A. C. 310.

¹⁸ D. McArthur, "Revision of the Canadian Constitution," *Queen's Quarterly*, Vol. XLI, No. 1 (Spring, 1934), p. 126.

nected that they cannot be divided up amongst ten legislatures without the certainty of delay, mismanagement and confusion."¹⁹

In this age of increasing social and economic unity a redistribution of federal and provincial powers is essential, in order that the legal jurisdiction of the federal government be made to conform with its wider functions. The new division of powers should be brought about by way of amendment of the British North America Act. Reliance on concurrent legislation by the Dominion parliament and the provincial legislatures is less satisfactory. A province cannot be compelled to legislate, nor can it be prevented from repealing legislation, on subjects within its sphere of jurisdiction.

The necessity of social legislation in a modern industrial state is generally recognized. The redistribution of powers in Canada must give further recognition to the fact that such legislation cannot operate successfully in some provinces only. Unemployment insurance, maximum hours of work, and minimum rates of wages in some of the provinces will mean a relatively higher cost of production as compared with the others. The effect will be to drive producers to the provinces where costs are lower. Uniform legislation is essential to prevent unfair competition of this nature at the expense of the social services. Such uniform legislation can be made possible by including social legislation within the jurisdiction of the Dominion parliament. It should not, however, be made an exclusively federal power. Some provinces may desire certain forms of social legislation which the others, with a larger representation in the Dominion parliament, may not approve. The larger provinces should not be placed in a position where they can prevent the others from introducing the desired legislation within their area. It is therefore recommended that social legislation be constituted a concurrent power of the Dominion and the provinces.

A serious problem has also arisen in the matter of the incorporation of companies. Charters of incorporation are granted by the Dominion and by each of the provinces. Since these charters confer special powers and rights, the state which grants them should be in a position to prevent their abuse to the detriment of the community at large. It is particularly essential to regulate the flotation of securities. Uniform company legislation is essential to this end, but successive Dominion-Provincial conferences have failed to agree upon a uniform Act. The Dominion cannot impose its own act upon any province, which might take advantage of its own inadequate legislation to become an "incorporation farm."

There are two possible solutions to the problem. There may be introduced a constitutional amendment of the provincial power of incorporation, in order to assure a minimum uniformity with Dominion legislation. On the other hand, advantage may be taken of the fact

¹⁹ F. R. Scott, "Development of Canadian Federalism," *Papers and Proceedings of the Canadian Political Science Association*, Vol. III (1931), pp. 243-244.

that the provincial interest in the incorporation of companies is primarily due to the revenues derived from this source. A compromise might be effected with the provinces whereby the powers of incorporation would be assigned exclusively to the federal government while the revenues would be divided amongst the provinces. It is suggested that a similar plan might be evolved in order that control of insurance be also assigned to the federal authority. It is not in the public interest that jurisdiction over the all-important subject of insurance be divided amongst ten parliaments.

There remains for consideration the problem of the federal residuary powers. The welfare of the larger part of the population of Canada is now dependent upon economic activities which are nationwide in scope. The failure of any one of these activities to function successfully affects widespread groups of people in all the provinces—primary producers, employees and investors. In other words, that economic activity becomes a matter of national concern. It is in the public interest, therefore, that the federal government be given powers of regulation and control over such economic activities. It may be in the national interest to control production and marketing, or to regulate competitive methods, or to adjust prices, or to prescribe minimum working conditions. The courts have held that in times of national emergency the Dominion may, in the exercise of its residuary powers, legislate for the national safety, even to the extent of encroaching upon the jurisdiction of the provinces, and they therefore upheld legislation fixing prices²⁰ and controlling industries during the war. It was not the intention of the Fathers of Confederation, however, that the power of the Dominion parliament to legislate generally on matters of national concern be limited to periods of emergency. Their views were enforced in the early decisions of the Judicial Committee of the Privy Council on the British North America Act.²¹ In the light of later judicial interpretations, and of recent economic developments, the powers of the Dominion parliament to legislate generally on matters of national concern should be specifically re-stated in terms which will make possible the effective exercise of such powers.

The facts of social and economic life in Canada imperatively require a redistribution of legislative powers between the Dominion and the provinces. Outward doctrines and rigid enactments must be modified to meet the needs of the times. Within the limits inherent in federalism "there ought to be an effort to obtain the maximum of flexibility consistent with a reasonable security to the legitimate aims and interests of minorities and provinces."²²

²⁰ *Fort Frances Pulp and Paper Co. v. Manitoba Free Press Co.* (1923) A. C. 695.

²¹ *Russell v. the Queen*, 7 A. C. 829.

²² N. McL. Rogers, "The Compact Theory of Confederation," *Papers and Proceedings of Canadian Political Science Association*, Vol. III (1931), p. 228.

F. H. UNDERHILL.—After four and a half years of a world depression which has put an unprecedented strain upon our governmental institutions the people of Canada at last appear to have reached the point where they are willing to discuss the question of amending their federal constitution. The rude buffeting of events has shaken them out of their superstitious reverence for the sacred unchangeable document. And it has now become quite respectable to mention the pressing necessity for constitutional readjustments. Indeed everyone from the prime minister down is doing it, radicals and conservatives, professors and stuffed shirts. But no one seems to have carried this new enlightenment to the point of discussing what the process of amendment should be. We shall probably not reach that point until the next depression or the next but one. This paper, therefore, which is solely concerned with the method of amendment rather than with the content of such amendments as may be desirable, is written for the benefit of my fellow-citizens of the nineteen-forties or nineteen-fifties.

The British North America Act contains no specific provision laying down the procedure by which it shall be amended. In the absence of such provision all amendments must be made by the authority which passed the original Act, i.e. by the British parliament at Westminster. But since the Imperial Conference of 1926 and the Statute of Westminster of 1931 the British parliament in other matters is no longer imperial in respect of Canada; and the necessity of having recourse to it for the settlement of any of our domestic problems must be considered as a vestigial survival of our nineteenth century colonial subordination. Apart from this sentimental or theoretical consideration, the present process of amendment is open to a much more serious criticism in that there is no certainty or unanimity as to what exactly the process is. Hitherto the British parliament has always acted more or less automatically in passing any amendments which were requested by a Joint Address of the two Houses of the Canadian parliament at Ottawa. But whether in addition to this joint address there is needed also the consent of the provinces or of a majority of the provinces, and whether such consent is needed for all amendments or only for certain amendments bearing directly on provincial rights—these are questions about which there has been much controversy in Canada especially during the last decade. The pronouncements of our public men, listening with their ears to the ground for the first signs of regional rumblings, have not been altogether consistent. And the plain fact is that we do not know whether in a critical case the imperial authorities would conceive of their part in the process of amendment as being purely automatic, after the initiative had been taken by the joint address from Ottawa, or whether they would try to mediate between a majority in Canada demanding some change and a minority opposing it. That the House of Commons at Westminster is a body of gentlemen quite unfitted, both because of their ignorance and because of the pressure of other duties, to perform this function of mediation is a proposition which needs no argument. And the prospect of the House of Lords

bringing its gigantic collective intellect to bear upon such a problem is one which will cause all but the most devoted colonial loyalists to shudder.

Yet it is impossible for us to take the amending power out of the hands of the British parliament (which would no doubt be glad to give it up) until we have agreed in Canada upon a substitute method of amendment by which the whole procedure will be located in this country, a method which promises reasonable stability combined with reasonable flexibility to our constitutional arrangements, and which guarantees reasonable security to the racial and religious minorities in the community.

Before going further in this discussion one should pause, perhaps, to deal with a particular group of naïve optimists among Canadian radicals. They argue that the automatic character of the British participation in the amending process in the past means that it will continue to be automatic in the future, and that therefore we have now for all practical purposes a constitution which can be amended by the simple legislative process of the action of the two Houses of parliament at Ottawa. If this were true we should be blessed with the most flexible of all federal constitutions in the world. But such argument neglects one vital point. Hitherto all amendments to the British North America Act have been simple routine or technical adjustments which have not changed the basic principles of our federal structure or altered the balance of power between Dominion and provinces, and especially have not touched sections 91 and 92. They have adjusted the membership of the Senate to our westward expansion, or have increased the provincial subsidies without touching the root principle of the subsidy or the division of the taxing power, or they have done other things even more non-controversial and insignificant. Not until 1930 was there any talk in Canada of real substantial changes in our federal system. As a matter of historical fact we have had since 1867 the most rigid federal constitution in the world. The almost religious passivity of the Canadian people on constitutional questions, their lack of the experimental temper, contrasts vividly with the vigor with which the Australians have tackled their constitutional problems. If now within this coming decade we seriously approach the project of making real changes in our federal structure it will quickly become evident that considerable sections of the Canadian people will not tolerate for long a condition by which amendments can be made by a mere majority at Ottawa with the automatic approval of Westminster. Accordingly, the sooner we face the question of the precise concrete safeguards with which we wish to surround the amending process, the better it will be for all concerned.

Let us assume, then, that we wish to devise an amending process which will be located entirely in Canada. We may be able to find some help in the experience of other federal states. I shall deal very briefly with three of them, the United States, Australia and Switzerland.

In the United States constitutional amendments have been carried out by one process since 1789, though there is an alternative method provided in the constitution which has never been used. A proposed amendment must pass the two Houses of Congress by a two-thirds majority (i.e. two-thirds of a quorum), and it must then be ratified by the legislatures of three-quarters of the states (i.e. 36 out of the 48 states). The universal criticism of the American procedure is that it has been too difficult. From 1789 to 1920 only 19 amendments were adopted, of which the first 10, adopted immediately after the original constitution as a Bill of Rights, practically form part of the original document. The 11th was adopted in 1798 and the 12th in 1804. From 1804 to 1913 only three amendments, the 13th, 14th and 15th, were adopted; and these were really forced through by the Civil War. In 1913 came the amendments ratifying the income tax and the popular election of senators. The prohibition and the woman suffrage amendments at the end of the great war complete the tale up to the nineteen-twenties. Historically the main obstacle to amendments has consisted in the difficulty of getting them through Congress. Up to 1926, when the last official count was made, there had been introduced into one or other of the Houses of Congress some 2500 proposals for constitutional amendment which would have resulted in some 3000 changes in the constitution. Of these only 24 got through Congress, and of the 24 the legislatures of the states accepted 19. Horrible pictures may be painted of how 13 small states with a combined population less than that of the State of New York can hold up any amendment, or of how the 12 big states with half the population of the nation can have amendments forced upon them by the 36 small states, but the historical fact is that it is the two-thirds majority in Congress which is the determining factor. In our time the only amendment which has got through Congress and then been thwarted by a failure of support from sufficient states has been the child-labor amendment.

This does not mean, of course, that the United States has had a rigid, largely unchangeable constitution during a century and a half. As American commentators are always pointing out, though insular Britons have never been able to understand the phenomenon, the American constitution is as flexible as the British. The work of the founding fathers has been changed out of recognition by two forces (1) the customs of the political parties in operating the machinery of government, and (2) the interpreting power in the hands of the judges of the Supreme Court.

In Australia constitutional amendments have to be passed by an absolute majority of both Houses of the federal parliament and then ratified by a popular plebiscite in which they secure a majority vote in the Commonwealth as a whole and also a majority vote in a majority of the states. Since Australia consists of six states a majority of the states means four out of six, i.e. a two-thirds majority. The Australian procedure was thought by its inventors to be both more democratic than the American as involving the direct activity of the people, and

also more flexible as facilitating changes more readily. But until 1928 the Australian constitution turned out to be almost unamendable. Two minor technical changes were made in 1906 and 1910. After that, repeated efforts to reconstruct the division of powers so as to give the Commonwealth greater control over commerce and industry were defeated by popular vote, in 1911, 1913, 1919 and 1926. The peculiar circumstance is that all these proposals embodied practically the same changes, that they were supported at different times by both Labor and anti-Labor governments, but that the people uniformly rejected them though they might at the same time re-elect the government which was responsible for the proposals. Whatever the reasons may be, the popular referendum has operated as a conservative force in Australia, and it is the reference to the people, not the voting in parliament, which has been the standing obstacle to change. The amendment of 1928 (Section 105A) by which the Commonwealth was authorized to make agreements with the states concerning state debts and the regulation of future borrowing, and which has produced a drastic centralization of financial power in the federation in the hands of the Loan Council, and in this important respect has transformed the nature of Australian federalism, was apparently ratified by popular vote without any clear understanding of what its implications were.

Switzerland's democratic institutions work in a manner so different from that to which we are accustomed that probably the Swiss experience should not be quoted either for or against any proposal. Constitutional amendments may be brought about in two ways. The normal procedure is an ordinary majority vote for a proposal by both Houses of the federal legislature ratified by a referendum which, as in Australia, must result in the support of a majority of the citizens of the republic as a whole, and of majorities in a majority (i.e. $11\frac{1}{2}$) of the cantons. Since 1874 most of the amendments proposed in this way have been accepted by the electorate. The second method involves the use of the popular initiative. Any petition of 50,000 citizens asking for a certain change in the constitution must be submitted to the people either with the approval or disapproval of the legislature. Of the proposals arising from the initiative the great majority have been rejected by the Swiss people. This is natural enough since the signers of the initiative petition are really backing their own judgment against that of the representative legislature; any amendment acceptable to the legislature would not have to be initiated by popular petition. But it is significant that in several cases initiative proposals which are at first rejected may be later accepted by the people. Thus proportional representation was twice rejected, in 1900 and 1910, to be finally accepted in 1918. In other words the initiative is a help in making the constitution less rigid.¹

¹ All students seem to be agreed that the general tendency of direct legislation in Switzerland (both for constitutional and for ordinary purposes) is conservative. Herman Finer in *The Theory and Practice*

In Canada we have only one concrete proposal before us. This is the proposition which Mr. Lapointe, then Minister of Justice, presented for discussion to the Dominion-Provincial Conference in 1927 and which he has substantially repeated in his speech of January 16, 1932, to the Cercle Universitaire of Montreal. He proposed that amendments should be initiated by a two-thirds vote in both Houses of parliament and then should be ratified by a majority of the provincial legislatures. But amendments dealing with certain vital minority rights should require the consent of all the provinces; and these he specified as being proposals to change the following sections of the British North America Act: section 93, dealing with education, section 133, dealing with language; and section 92, subsections 12, 13 and 14 dealing respectively with the solemnization of marriage, property and civil rights, and the administration of justice in the province.

One criticism of Mr. Lapointe's scheme will occur to everyone. The requirement of a two-thirds majority in each of the two Houses at Ottawa will prove to be an almost insuperable obstacle to change, just as the similar requirement has proved to be in the United States. Our Canadian Senate, unless it is itself reformed, may be relied upon to oppose most of the amendments which are likely to come up in the next generation, since inevitably all the amendments which matter will be concerned with questions of social and economic policy and will be aimed at giving the national government greater control over Canadian business activities. For the Senate is packed with representatives of those very interests who stand to profit from our present unchanging constitution with the opportunities which it provides for frustrating by judicial decision all attempts by the national political authority to curb the acquisitive appetites of our business magnates. To demand a two-thirds majority in such a Senate for proposed constitutional change is to rivet upon us a practically unchangeable constitution.

Rather, it seems to me, we should copy a provision which occurs in the Australian constitution. By this, if one House passes a proposed amendment which the other House refuses to accept, and if the first House passes it again after a lapse of three months, the Governor-General may then consult the people in a referendum over the heads of the opposing House. The practical effect of this Australian provision is to give the House of Representatives a means of overriding

of Modern Government (London: Methuen, 1932), sums up his analysis: "In Switzerland the Referenda from 1874 to 1924 showed the Swiss people anxious for liberal political rights, severe to murderers, a drag on the process of centralization, in favor of tariff duties, occasionally anti-Semitic, a drag on state control in the management of industries, supporters of domestic virtue (in the marriage and liquor laws), steadily austere in relation to the payment of public officials, and unenlightened regarding public health measures. On the whole one may say the effect has been conservative; or, in other words, the assemblies were ahead of the people."

the Senate, since the Governor-General's discretionary action will of course be taken on the advice of his ministers who are responsible to the House of Representatives, not to the Senate. If the Australian Senate, an elective body, needs to be coerced occasionally, the need will be much greater in the case of our unique collection of elder statesmen at Ottawa.

That ratification by the provinces should be carried out by a vote of the provincial legislatures rather than by any plebiscitary process seems to be the conclusion which naturally follows from a study of the working of the referendum in Australia, Switzerland, and in the American states. The ordinary elector is not competent to understand many of the technical considerations that affect constitutional changes; he can be made to understand them only through the same kind of education and propaganda that he receives (by means of the party system) when electing representatives to the legislature, and experience has shown that voters will not turn out in the same numbers for referenda as they will for the election of legislative representatives. It is true that the average member of a provincial legislature is no more competent or intelligent, but he is likely to be more directly amenable to intelligent leadership.

Mr. Lapointe's proposal to safeguard the special minority rights of the French will be approved by everyone except a few fanatics. Necessarily there must be included in this safeguard, I presume, the most important clause in the British North America Act—Section 92, subsection 13, which assigns property and civil rights to the jurisdiction of the provinces. Yet it must be remembered that no amendment which assigns to the Dominion increased powers within such economic fields as social insurance, company law, regulation of labour conditions, can avoid encroaching directly or indirectly upon property and civil rights or upon what will be claimed by many in Quebec as coming within the scope of property and civil rights. A series of amendments, ratified by the ordinary process of majority provincial consent, which transferred one economic function after another to Dominion control would gradually whittle away the significance of the property-and-civil-rights subsection. That there will be strenuous opposition to this from certain Quebec interests may be taken for granted; and the question should be thoroughly discussed now by competent legal authorities, of whom I cannot claim to be one. Politically, the only solution to this problem would appear to be a gradual process of education by which the French citizens of the Province of Quebec are convinced that most of the issues which arise in this field do not represent threats or potential threats to the real interests of Quebec as a whole but only to those interests of that part of it which is located in the neighborhood of St. James Street, Montreal.

One final remark may be made about the whole question of constitutional amendment. We shall never get anywhere in this country until our people have emancipated themselves from the ancestral parochialism which still makes them such persistent fundamentalist wor-

shippers in the sectarian chapels of "provincial rights." If we are to tackle our national problems effectively we must come to see that Dominion and provinces are only two different methods of arranging ten million people, and that in any given case the question whether they shall be arranged as one Dominion or as nine provinces must be settled by purely pragmatic tests. A people who are intellectually so timid and slow-moving as the Canadian people have shown themselves to be in the past, who can be so easily blinded by appeals to sectional and local prejudices, are likely to make any process of constitutional amendment unworkable, whatever care may be taken by its framers to give it flexibility. In such circumstances we shall have to look for necessary changes to the process of judicial interpretation, and the question whether we shall ever have a national government equipped to fulfil its national responsibilities will depend upon the mysterious ratiocinative processes of five elderly privy councillors in London.

CANADIAN MONETARY POLICY — DRIFT, DOMESTIC MANAGEMENT AND DEBTS

G. A. ELLIOTT

During a period of rapid change in monetary theory and events, the writer has had only very limited opportunities of discussing the subject under consideration with others trained in economics and he has lacked completely the stimulus of contact with events in larger monetary centres. On the other hand, he has been exposed to the full blast of justifiable discontent in a province where public opinion on monetary problems is exceedingly radical. This paper, then, is not intended to be so much a formal contribution as a series of jottings given in the hope that their errors and inadequacies will provide evidence of the advances, in theory and practice, which have been made in the subject of money and banking, at a time when encouragement is greatly needed. In what follows, many of the sentences which appear as assertions should be prefaced by some such phrase as, "I wonder whether."

There are three general types of policy which in the immediate future Canadian monetary authorities may conceivably pursue. For want of better terms, these may be called "drift," "domestic management" and "an international standard." Under each of these general types is included a considerable range of possibilities. Future events will prove, of course, that discussion of all but a very limited range of these possibilities has been purely academic. Professor Day has undertaken to discuss the topic from the third and probably the most important type. I have agreed to confine my remarks as far as possible to the first two.

Drift implies the absence both of automatic regulation and of conscious control by a central authority toward a well defined monetary objective. The introduction of borrowings under the Finance Act terminated the automatic system in Canada and though at the time of writing it seems that we shall have in future a central authority, it is not as yet certain that we shall have a well defined objective. Even if the event

proves that a definite objective, that is to say a monetary standard in the broader sense of the term, is determined by statute or by the central bank authorities, some discussion of the policy of drift may not be completely lacking at least in historical interest. Drift does not imply, of course, either the complete absence of all policy or perfect chaos. This is apparent from Canada's past experience. During the war the use of Finance Act borrowings to assist the government in its financial policy had important effects on the Canadian dollar. During our brief post-war experience with the gold standard, too, some control was exercised at times to prevent the exportation of gold when the premium of foreign funds made export profitable.¹ Since October, 1932, the use of Finance Act advances has apparently been encouraged to promote government financing or to lower the interest rate structure or both. Throughout the period, however, the most pervasive element of policy has been the customary adherence of the commercial banks to those usages which have come to be accepted as sound banking practice in Canada. The policy of the commercial banks, as commercial banks, is vindicated by a comparison of the records of Canadian banks during the depression with those in some other countries. It is probably now unnecessary to remark that this policy, necessarily, has to do primarily with the choice of credit risks. Its effect on the aggregate of deposits and the complex of interest rates are unintentional and accidental. Nevertheless, since the war, it has been probably the most important domestic policy affecting the Canadian dollar.

Much has been said in Canada of what advances under the Finance Act at the will of the banks enables the commercial banks to do. Somewhat less has been said concerning the policy which the commercial banks have actually followed. Commercial bankers themselves, perhaps rightly, have adhered to the tradition of reticence in discussing their policies. Certain statements, however, much too general in character to be either dangerous or very enlightening have been made from time to time. These statements indicate that the commercial

¹ "Proposal for a Central Bank," *Queen's Quarterly*, Vol. XL, No. 3 (August, 1933), pp. 437-8; J. M. Keynes, *Treatise on Money* (New York: Harcourt, Brace, 1930), Vol. II, pp. 328-9.

banks have used the Finance Act facilities and will, under a policy of drift, continue to use central bank advances for temporary emergencies in financing the "legitimate requirements" of business and industry. That is to say loans were granted by each bank at a comparatively stable rate of interest and at the will of the borrower subject to legal requirements and the apparent safety of the loan. Changes in the amount of loans and the note circulation of particular banks relatively to changes in their deposits would then be reflected in clearing house balances. Unexpected changes in the cash requirements of particular banks might lead to Finance Act borrowings. And changes in the average amounts of Finance Act advances were one of the factors affecting the reserves of the banking system as a whole and, in consequence, the total of bank loans and investments.

Let us suppose that this passive policy has been in fact pursued. While the Canadian dollar was inconvertible, the average amount of advances under the Finance Act and consequently the legal tender base of the system would vary with a number of factors. The Canadian banks have allowed the ratio of their domestic legal tender reserves to deposits (both demand and total) to vary somewhat when major changes occurred affecting the safety or profitableness of call loans. The chances are that when the ratio is lower, advances under the Finance Act would be higher. Moreover, even supposing the ratio were kept constant, the greater the velocity of circulation the greater would probably be the average clearing house balances and the Finance Act advances. It follows that in a period of prosperity the banks as a whole would be able to carry somewhat more securities or loans than if Finance Act advances were not available and interest rates would be somewhat lower than would otherwise be the case. In such a period, however, a higher rate would better promote stability. Conversely, in a period of depression, repayment of Finance Act advances would tend somewhat to diminish the security purchases of the banks as a whole and, consequently, tend toward lessening the fall in the rate of interest at a time when a greater fall would probably promote stability.

But during the period 1926 to 1928, the Canadian dollar was convertible into gold and from 1928 to 1931, while not

immediately convertible, did not depart very far from par.² The latter part of this period was a time of distinct international financial strain. The Department of Finance would appear to have been in the position of a central bank which could take no action to preserve its gold reserves. In retrospect, then, it seems remarkable not that Canadian gold reserves were reduced nor that the exchanges departed from par but rather that the Canadian dollar retained as great external stability as in fact it did. This may be accounted for in part by the fact that the ratio of Canadian gold reserves to note issues was high at the beginning of the period and could be reduced by means of operations under the Finance Act without legal limit. A more important factor in the situation was that the Department of Finance was not precisely in the same position as an ordinary central bank since the commercial banks carried in the aggregate a large secondary reserve in the form of call loans in New York. Insofar as these funds were allowed to vary appropriately, considerable temporary fluctuations in the other items of the balance of payments might occur without affecting the external value of the Canadian dollar. Actually for the most part, they were allowed to fluctuate in a direction favorable to short run exchange stability except during the last month of 1928 and the early part of 1929. Their diminution, too, in 1930 and 1931 probably helped materially to stabilize the Canadian dollar during that period. However, the policy of drift made no provision for contraction of the monetary base when long term adjustments were required. Its inadequacy in maintaining adherence to an international standard was well demonstrated even before 1931.

So much for the policy of drift in the past. Even after the central bank is established, it may be continued unless some definite monetary objective is selected. It is perhaps pertinent to enquire how the establishment of the new institution may be expected to influence the policy of drift if it is adopted in the future.

Let us first consider the possibilities when the Canadian dollar is not convertible into an international currency. We

² C. A. Curtis, "The Canadian Monetary Situation," *Journal of Political Economy*, Vol. XL, No. 3 (June, 1932), pp. 320-1.

may assume to begin with that the reserve ratio of the central bank will be considerably above the legal minimum and that its earning assets will be comparatively small. So far as advances to the commercial banks are concerned, then, the path of least resistance will be a continuance of the passive Finance Act policy. The effect of the borrowing policy of the Dominion government will be less direct but, in this respect too, in the absence of a definite objective, the custom of the past would probably be continued. On the other hand, the obvious objective of earning its dividend and proving itself a financial success would tend to encourage the central institution to acquire earning assets with a consequent tendency to increase bank reserves and lower the interest rate structure. The effect of this policy would seem to be to move upward the monetary limit to the next prosperity period. This effect, incidentally, would remove for the duration of the prosperity period such debt problems as had not been previously settled piecemeal by reorganization, compromise, bankruptcy or foreclosure. It might be supposed that the reserve ratio requirements at least would set a monetary limit to the expansion. But while the notes and deposits of the central bank remain inconvertible there seems little to prevent the bank from increasing its reserves by purchasing gold even at a nominal loss if it should appear expedient to do so. However, the pressure of those with debts to meet abroad would probably set a political limit to the external fall in the dollar which such an expansion would involve unless accompanied by similar events in the United States and Great Britain. Once the income from earning assets was sufficiently large to take care of dividend requirements and the establishment of appropriate reserves, the profit motive would not lead to further central bank action to ease the monetary strain when the boom had run its course.

In the very short run, the appropriateness of such a policy so far as domestic control is concerned is dependent upon the stage of the business cycle in which the central bank begins operations. In the long run, however, the effect would seem to be to widen the range of industrial fluctuations. It is not to be expected that the Canadian central bank will adopt drift as a long run policy even in the absence of convertibility unless

those placed in charge are inclined to apply too closely to central bank management the criteria of success or failure which are appropriate in private business. If the central bank is required to convert its currency at a fixed rate into some international money, for example, gold, sterling or American dollars, the ultimate result of a policy of drift would be depletion of reserves and abandonment of the international standard.

One of the alternatives to drift is domestic management. This means that the central bank selects as its objective the stabilization of some element in the domestic situation, for example the level of prices or money incomes. It implies long run instability of foreign exchange rates. With respect to Canada, two possible cases should be distinguished: if the prospect of unstable exchanges does not deter Canadian concerns from borrowing abroad, some sort of control of foreign borrowing in harmony with the policy of the central bank might be adopted; or alternatively, the import of capital might not be greatly obstructed.

In the first case, it would seem that the central bank would possess the power to make its control effective. The absence of an important domestic money market, under the circumstances supposed, makes for easier control.³ It means only that the central bank must enforce its credit policy by the purchase and sale of securities or foreign exchange.⁴ The narrower the security market, the smaller is the size of the operation required to effect any given alteration in the yield on gilt edged bonds. It may be assumed that a change in the yield on bonds would have repercussions throughout the interest rate structures which, coupled with a change in the volume of circulating media, would eventually affect prices, incomes and general business activity.

³ "Proposal for a Central Bank," *loc. cit.* For what may be a somewhat different view, see A. F. W. Plumptre, "Currency Management in Canada," *Papers and Proceedings of the Canadian Political Science Association*, Vol. IV (1932), p. 143.

⁴ It is assumed that the central bank will have power to purchase and sell government securities and will not be deterred from such operations by traditional considerations of "liquidity."

The customary inflexibility of certain important elements in the Canadian interest rate structure presents somewhat more serious difficulties. The more inflexible elements in the past have included domestic call loan rates, rates on bank loans to customers, mortgage rates and, especially, rates on savings deposits. However, a Canadian central bank with ample reserves could, it would seem, force a lowering of the rates on deposits. It is more doubtful whether it could force them to rise. In any case, changes in these rates have been made recently and it might be possible to effect an understanding with the commercial banks respecting their control. In the case of the other rates, the effects of open-market operations on commercial bank reserves and bank deposits would probably influence the rationing policies of the banks and other lenders sufficiently.⁵

One change in commercial bank practice might be necessary. In the past, the Canadian banks have varied somewhat the ratio of their legal tender reserves in Canada to their liabilities to the public. Such a practice may weaken considerably the power of a central bank. The policy should be developed, by convention or law, of maintaining the domestic legal tender reserves of the Canadian commercial banks at a fairly rigid ratio to their liabilities to the public, without regard to the magnitude of their call loan or security investments in Canada or elsewhere. Moreover, only a small or an inflexible portion of the commercial bank reserves should be in gold.

In the interest of harmony between central and commercial bank authorities, one other point might be mentioned. The assent of commercial bankers to any form of central control is predicated upon the continuance of customary facilities for obtaining advances from the central institution. The central bank will find it difficult to refuse advances in emergencies to particular commercial banks. It would seem desirable, then, that the commercial banks be confirmed in their stated policy of using advances from the central institution only for short periods in cases of emergency and that the control of the

⁵ Keynes, "The Fringe of Unsatisfied Borrowers," *op. cit.*, Vol. II, p. 364.

central bank be effected by the purchase or sale of securities or foreign exchange.⁶

Certain temporary initial problems of control are apparent. The objective of control must be determined. The question of personnel of the management requires, of course, the most careful consideration. Moreover, the most competent managers will require some volume of experience with the new institution before they can obtain exact quantitative knowledge of time lags between their action and its various effects; and before they can estimate exactly the precise amount of the operations required. It is to be noted that the actions of new central banks have more frequently been too late and too little than too soon and too great. In the beginning, it is to be expected that the effect of central bank action will be less prompt and more erratic than it will become after routine methods of response have had time to develop. Finally, if the central bank begins operations at a time when the attainment of its objective requires restrictive measures, it may be handicapped by lack of securities to sell, and by unwillingness to reduce further its earning assets.

However, we may conclude that, under inconvertible conditions, if international borrowing is prevented or controlled, domestic currency control could be made as effective in Canada as in most other countries. To make it effective, however, three conditions should be fulfilled. There should be a variable rate on savings deposits. Central bank advances should be used only in emergencies and for short periods and the reserve ratios of the commercial banks should be rigidly maintained. The first two conditions are probably necessary even for the effective maintenance of an international standard. The latter is customary banking policy in most countries.

But there is a second case — more probable, indeed, than the first. Control of the movements of capital into and out of Canada may be impossible or may be deemed inexpedient. Canadians may not be deterred from borrowing abroad by the prospect of fluctuating exchanges. Or the commercial banks and others may be led to transfer funds into and out of Canada

⁶ In the absence of legal power to engage in open-market operations during a depression, the policy of permitting or encouraging the banks to utilize the Finance Act facilities has probably been justifiable.

in large volume. Under such circumstances, the conditions of the problem are drastically changed. The central bank could not then so readily check a boom occasioned by low foreign interest rates and large importations of capital by maintaining a high interest rate structure in Canada. Central bank exchange operations, however, might have at least a temporary effect in the direction desired.⁷ It might be somewhat easier to shield the domestic market from the effects of a rise in foreign interest rates. If domestic rates are kept low, it is true that short term funds may be withdrawn, but facilities for floating issues of foreign long term securities are lacking. Moreover, the transfer of funds abroad would probably lead to a rise in the price of foreign bills which, under the circumstances, might assist the central bank in maintaining the aggregate of domestic money incomes, or in lessening a fall in the domestic price level.⁸

From a long run point of view, and having regard to Canada's vital interest in international trade, the discussion of control with a purely domestic objective is probably of academic or historical interest only. It is conceivable, however, that convertibility into some international currency may not be definitely undertaken for some unpredictable period after the central bank commences operations. Indeed, it is probably desirable that the burdens and possible strains involved in the maintenance of an international standard should not be undertaken until the central bank has had time to establish itself.⁹ During that interval, at least, the central bank authorities must either drift or pursue some policy. They might pursue a policy of management in the interest of domestic stability. It is more probable, however, that they will attempt to stabilize the external value of the dollar at what is considered an appro-

⁷ Plumptre, *loc. cit.*

⁸ Various writers have attributed the difficulties of certain "new" countries in adhering to an international standard alternatively to the great fluctuations in the yields and prices of agricultural products or more vaguely to the fact that they are debtor countries. In such countries, the greater ease of maintaining interest rates lower than the "international" rate as compared with that of enforcing rates "higher" than the international rate may conceivably form part of the picture.

⁹ *Report of the Royal Commission on Banking and Currency in Canada* (Ottawa: King's Printer, 1933), par. 232.

priate level in terms of the standard which they plan ultimately to adopt.

Whether Canadian authorities select as their objective domestic management of the dollar or adherence to an international standard, they will be forced to choose between several methods of treating the problem of long term indebtedness. Either the level of prices must be raised to correspond at least roughly with that at which the great volume of existing long term debts was incurred or some non-monetary solution must be adopted. This problem has both its international and its domestic aspects. Since Canadians can influence the former aspect only slightly and indirectly, it may be more profitable to concentrate our attention on the latter.

Three years ago or even two, the arguments for attempting a solution of the domestic long term debt problem by monetary measures seemed very strong. In my correspondence during that period, I find it stated as follows:

One point which, perhaps, deserves greater emphasis . . . is the necessity of taking action at the earliest possible moment. If a return to something approximating the price level which obtained in Canada in the years 1926-9 is contemplated, steps to that end should be taken at once.

The two main types of difficulty created by the fall in prices have been, first, the maladjustment arising from the unequal changes which have taken place as between different portions of the general price structure with consequent losses and unemployment, and second, the injustice to debtors involved in the rise in the purchasing power of the monetary unit.

Now that the rapidity of the fall in prices has been checked factors are continuously at work tending to remedy the sectional price level maladjustments In as far as time is permitted for these adjustments to be made, corrective measures will have the effect not only of remedying the maladjustments which remain but of setting up new maladjustments between those sections of the price level which have already been adjusted at the new level. And these new maladjustments may for a time tend to be cumulative. At any rate they will make subsequent management of the currency more difficult, whether the objective proposed be stable exchanges or a stable domestic price level.

Moreover, as time goes on debts incurred during the period of higher prices mature. If these debts are cancelled by bankruptcy proceedings, foreclosures or repayment, the injustice to the individual debtor is completed. And no subsequent policy of reflation or accidental rise in price can be depended upon to undo that injustice once it has been done. If, on the other hand, a policy of moratorium, formal or informal, is adopted pending the initiation of a policy of reflation, an additional

element of uncertainty is introduced into business which will tend in part at least, to counteract the effects of any monetary policy subsequently undertaken with a view to stimulating productive enterprise

Again, if the contemplated policy is not immediately put into operation, new debts are incurred though in very much smaller volume than is customary under normal conditions A subsequent rise in the price level will, so far as these new debts are concerned, effect new injustices.

However, some two years have elapsed since the preceding paragraphs were written. The problem of debts remains, but other readjustments have proceeded. Money wage rates have fallen considerably. So have contract rents. Some adjustment between the different sections of the price structure also has taken place. It seems probable that re-employment of laborers and equipment may be effected at a level of prices considerably lower than that which prevailed before 1930. Monetary measures to readjust the price structure to its pre-depression level might be accompanied by such an increase of investment relatively to savings as would lead to a boom and probably another serious depression. The argument in favor of a monetary solution of the debt problem is consequently less strong than it was two years ago. On the other hand, it should be noted that the adoption of the new and lower level of wages is regarded in many quarters as a temporary measure. Any substantial rise in the general level of prices or business activity would doubtless lead to an immediate agitation for higher wages. And employers might be induced to raise them. It is conceivable, then, that increases in wage rates might follow a rise in prices so closely as to avoid a serious boom and a subsequent severe depression.

Two non-monetary methods of meeting the debt situation may be contrasted. There is the usual piecemeal method of adjusting or cancelling the debts only of insolvent debtors on the one hand, and on the other, a more general reduction in the dollar value of long term domestic debts having regard to past changes in the price level and perhaps to possible future changes. The piecemeal method is defective in two ways. In the first place, it involves the same result for the prudent and industrious debtor who is just able to meet his debts as for the imprudent and indolent. The economic importance of this result relates not so much to the abstract injustice involved

as to the probable future effect on prudence and industry. For it will be anticipated that in the future similar situations will be similarly treated. In fact this anticipation is already having its effects. If it is fostered by the gradual process of piecemeal adjustment, it may increase considerably the number of insolvent debtors. In the second place, piecemeal adjustment without regard to price level considerations will tend to have the effect of discouraging future borrowing except by distress borrowers and of discouraging lending save on the very best security. This effect is, of course, already very apparent. It will prevail to some extent whatever method of debt settlement is finally adopted. But it will tend to be increased and prolonged by the piecemeal as compared with a more general method of adjustment.

A more general revision of debts to correspond with changes in the purchasing power of the dollar would avoid these difficulties. It would avoid, too, the expense and inconvenience involved in dealing with each individual case on its merits. On the other hand, it would injure unduly those whose liabilities consist primarily of short term obligations or debts payable in foreign currencies, and whose assets are primarily long term domestic securities.

There is no perfect remedy but the relative merits and defects of the various possible methods, monetary and non-monetary, should be very carefully weighed. In the present extraordinary conditions, it cannot be simply taken for granted that the ordinary piecemeal method is the best.

CANADIAN MONETARY POLICY — AN INTERNATIONAL STANDARD

J. P. DAY

Professor Elliott and myself undertook to deal with the future of the Canadian dollar. There are, as he pointed out, three possibilities; the first is the policy of what he calls "drift": to go on with our work, our business and our routine banking to the best of our ability, and to trust that, if we all do as well as we can, our money will find its own best level. The second is for our new central bank, working in harmony with the government and the chartered banks, to seek deliberately to control the purchasing power of the Canadian dollar at home, choosing either stability or possibly some regulated fall in purchasing power, whichever is thought to suit better the interests of the country. That is the policy he calls "domestic management." The third policy, with which I am to deal, is that of linking our money up with that of other countries and having again an international standard of value and stable foreign exchange.

Now, we all know which is, theoretically, the best monetary policy for this or any other country. It is to restore gold as an international standard of value, to have every currency always redeemable in gold and no restrictions on gold export or import, and, especially, to have the value of gold itself internationally controlled. This, of course, has been recommended again and again to international conferences by expert committees and approved by them. But, as a practical proposition, it does not get us very far. Public opinion all over the world is quite definitely in favor of peace and disarmament, but the first is precarious and the second we have not started to attain. Public opinion throughout the world may be equally decided in favor of the restoration of an international gold standard, but it is no more likely to win its way.

What are the prospects for a return to a world gold standard? The revaluation of the United States dollar at 15-5/21 grains 9/10 fine was hailed by some as a step towards the restoration of the gold standard. It did not put the United

States even temporarily back on a gold standard, since the export of gold is still controlled by the Secretary of the Treasury, and we all know that the President already possesses power to devalue to a greater extent.

What are some of the things that are necessary before the restoration of an international gold standard can be regarded as possible or, indeed, before its restoration would be of any advantage? In the first place, there must be a definite settlement of the war debts. For the reasons so convincingly given in the British note to Washington of December, 1932, the gold standard could not be maintained if it were liable to the recurrent strains of heavy transfers of currency representing payments on non-commercial and unproductive debts. Yet there is no indication from the United States that any wiser and less ungenerous policy on the debt problem will be adopted.

In the second place, the gold standard is unworkable so long as creditor nations refuse to receive payment in goods and services. Yet the United States tariff stands as high as ever. In the third place, the gold standard is unworkable so long as the world's gold is almost monopolized by one or two countries. There will first have to be a redistribution of the surplus gold stocks of the United States, and, very far from anything like that taking place, we see the ludicrous spectacle of the United States bidding fancy prices for the world's gold, sapping the foundations of the few remaining gold countries, and adding still further to her own surplus hoards. In the fourth place, there would need to be a firm agreement on the guiding principles of the working of the gold standard. Countries would have to agree to allow the movements of gold to have their proper effect on the national economy, and governments in general would need to maintain a balanced budget and avoid over-borrowing.

Even if all these difficulties were swept away, there remains the well-nigh hopeless task of reaching international agreement as to the new gold parities of all the various currencies. How likely the United States are to cancel the war debts, tear down their tariff walls, and give away their gold, and how likely the various countries of the world, which cannot even agree about how many guns each is to have, are to agree

on the new gold parities — a matter of vital interest to almost every individual — is, I suppose, a matter of opinion. To me the likelihood is extremely remote. I see no prospect whatever for some time to come of whatever intelligence in these matters there may be in the United States becoming sufficiently influential to reverse their present policies to an extent that would justify the British in re-establishing the gold standard. I want to stress this point. I think that we must face up to the fact that the restoration of an international gold standard is not even within sight as a practical proposition.

This, however, is not the opinion of the International Chamber of Commerce, who, at their meeting in March of this year, expressed their firm conviction that the time had come when the governments of the world should take the problem of currency stabilization into serious consideration. Their only reason for this, apart from the natural desire of all the business world for currency stability, is the fear that, unless something is done, France and the present gold-bloc countries will be driven to abandon the gold standard, the last link of currency and gold will be snapped, and a race in currency depreciation might restart. But what hopes are there of an international conference being any more successful than the fiasco of last June? That conference, from which so much was not unreasonably expected, was wrecked by President Roosevelt, and there is no indication that another conference would find the United States willing to change materially its stand.

The idea that if you only give the people of the United States plenty of time, wait till this election is over or the next, wait till this experiment has been proved futile or the next, and do not annoy them, they will co-operate intelligently in matters of world monetary reconstruction, has been falsified by experience. The policy of patience and politeness has not had any success, and, while I am far from advocating a policy of impatience or impoliteness, I think the world will do better to count the United States out in any attempts at monetary reforms, to let them go their own wild way, and to see what the rest of us can do to restore currency stability within as wide an area as possible. I shall be told at once that the United States is such a large and important country that it is impossible to do anything without them. That, however, has not

been seriously tried; while it has been tried and proved impossible to do anything with them. If, without the co-operation of the United States, the world established as large an area as possible of stable currencies, it is true that whatever happens in the United States would have a great effect on the rest of the world; their action might doubtless threaten such stability; we could not isolate ourselves completely from the repercussions of their eccentricities, but is it not better to do what is possible without their help than to continue obsequious and apparently futile efforts to lure them into a more complaisant attitude.

Indeed, what I want to see happen is already happening. More and more countries are drawing together in a block of stabilized currencies. The British, after thirteen years vain effort to restore the gold standard to the world, had no option but to abandon gold in September, 1931, since when their hands have been untied, since when they have been working out a policy of cheap money and adequate credit which has led to a marked revival in trade and prosperity. There is all the difference in the world between abundant credit with confidence in the monetary unit, and abundant credit without such confidence. The policy of the Bank of England and the British treasury seems to be to work towards a rise in commodity prices by increasing credit through additions to the credit base, but only so far and so long as the increased supplies are utilizable and complete confidence in the pound is maintained. Admitting that the world needs a higher price level to reduce the weight of debts, this is the proper policy to pursue. There is no advantage in pouring out money to people who will only push it back into the banks again; trade is not helped and confidence in the currency is shaken.

The result of British monetary policy has been that the English pound is now the best respected currency in the world. The same policy of a carefully fostered rise in commodity prices combined with a complete safeguarding of confidence in the monetary unit which suits England would be the best for most, if not all, of the countries of the world, and more and more the tendency is for those countries which are sufficiently well governed and sufficiently free from unbalanced budgets to adopt the same policy and thus find their currencies stabilizing on sterling.

It has been said that the British people prefer to accomplish their ends as the bees work, without undergoing the degradation of understanding what they are doing. However that may be, and there has been some reluctance in openly accepting leadership, the accomplishment of a quite considerable area of stable and steady currencies is undoubted. The sterling bloc now includes India, Egypt, the Irish Free State, Australia, New Zealand, South Africa, Southern Rhodesia, all the Crown colonies, Finland, Sweden, Norway, Denmark, Estonia, Portugal, Siam, and, more recently, Brazil, Uruguay and Argentine. The relative stability of the foreign exchange amongst these countries must be helping trade.

Hitherto it has been left to the merchants to discover for themselves that these exchanges are steady; they have no official policy or guarantee. I should prefer to have a definite announcement by the British government of what actually their monetary policy is. The Bank of England, with its inherited caution and love of secrecy, has never admitted that its endeavours have been to foster a careful rise in the price level. Other countries are naturally reluctant to tie themselves up definitely to the pound until it is known what the policy is and how far it is intended to pursue it. If a clear enunciation of British monetary policy proved to be entirely acceptable to all these other countries, I do not see why a beginning should not be made to establish a guaranteed exchange rate, within that degree of variation corresponding to the gold points. For over a year Egypt has had a steady exchange rate of 97½ piastres to the pound, whether officially guaranteed or not, I do not remember. I do not see why Sweden and Britain should not guarantee their merchants that exchange rate of 19.40 kronas to the pound which has been practically maintained for nearly a year. Merchants want the certainty of a stable exchange, not merely the hope or expectation of it. So, country by country a stable exchange with the pound, and therefore with all the currencies linked to the pound, would change from a suspected *de facto* to a reliable *de jure* stabilization, with the greatest benefit to mutual trade and the greatest help to commercial treaties, tariff concessions, and removal of restrictions of all kinds, none of which are of much avail if the currency relation is fluid.

Nothing of all this harms, or is aimed against, the United States. At any moment they can enter the same area of stabilized currencies by putting their house in order, adopting the same monetary policy, and adjusting their trade policy to their creditor position. Their entry would be most heartily welcomed. But whether they do join or do not, it seems to me that Canada should. We have already gone on record at Ottawa and in London, as supporting exchange stability within the empire. New Zealand's new central bank opens on the first of August, the bill for a new central bank for India has passed their legislature, and with all the dominions of the empire now, or very shortly to be, equipped with a central bank, the time is ripening to do what might have been done at the Ottawa Conference — had it not been overshadowed by the World Economic Conference — to take definite steps to establish currency stabilization within the empire and, therefore, within the even wider, and seemingly ever widening, sterling bloc. There is a demand already growing for another empire conference on money.

Now, the objections to Canada definitely linking her dollar with the pound seem to be three. The first is purely foolish, a fear that this means in some mysterious way, dominance by London. London naturally bears a great responsibility in guiding and maintaining the agreed policy, but there is no more a question of dominance than there is in the case of a taxi-driver who is taking you along the road you wish to go. If the British policy of cheap money, abundant credit curbed by the necessity for confidence in the monetary unit, and carefully rising prices, does not suit us, we should, of course, not join the sterling bloc; but, if it does, it is silly to fear dominance. After all, if their policy diverges, we could always break away again, but it is not likely to change until such a change, as, for example, towards eventual price stability, would suit us also.

The second objection is that our trade connections with the United States are so intimate that our money must fluctuate with theirs. What would tend to happen if we had a pegged rate with the pound, while in the United States prices rose rapidly? Must our prices rise rapidly also and our money lose purchasing power and our pegged rate prove impossible

to maintain? If, as a result of their monetary policy prices rose rapidly in the United States, we should sell them more goods and buy less from them, the balance of indebtedness would swing against them and they could ship gold. Normally, under the gold standard, the incoming gold would increase our credit base, credit would be extended, prices rise in Canada and equilibrium with the United States would be restored. But our rising prices would lower the purchasing power of our money and our dollar would fall against the pound. If, however, we sterilized the gold, equilibrium with the United States would not be restored and, apart from adjustments they might make, the prospect appears to be a continuous unloading of gold on us. This could be checked, if desirable, by the Canadian government lowering its buying price for foreign gold. On the other hand, if gold was not freely sent, the effort of United States purchasers of Canadian goods to pay for the excess merchandise would lead to our dollar reaching a higher premium over theirs, until equilibrium was regained. So it seems that the penalty we should have to pay for a stabilized rate with the pound is possibly greater fluctuations with the American dollar. There is, however, more than this. As our exports to the United States increased under the stimulus of higher prices there, and our imports declined, goods in Canada would become relatively scarce in so far as the slack could not be taken up by increased production. Prices, therefore, might rise in Canada and the pegged rate with sterling might really be threatened. To protect it, some restriction of credit would at times be necessary and it would be unpopular and resented, though at present with our capacity to produce more goods it would seem that restriction of credit could be avoided through increased production keeping prices down.

There is no purpose of blinking the force of the objections to the pegged rate with London. It might mean greater fluctuations than we now have with the American dollar and it might entail some credit management by the central bank which would, when it took the form of credit restriction, be resented. That has to be carefully weighed against the advantages to be derived by traders getting a stabilized currency exchange with all the countries of the sterling bloc. Fluctuations with the American dollar are an evil in themselves, but

whichever way they go, some people in Canada benefit while others suffer.

The third objection is that to peg our rate with the pound at the present time and rate is premature. Britain with a balanced budget may have just the price level which suits her at the moment and can be carefully raised; we, with difficulties in public finance and our railway debts, may not have. This means that some people would like to have our prices rising at a more rapid rate than English prices, but how can it be done? The experiment in the United States has shown that merely to increase money and credit does not bring proportionately higher prices; the more the currency is increased, the lower confidence slides, and the credit is not used but sumps up in the banks as excess reserves. If we could get our prices up more quickly than by the careful British method, it might be an advantage to do so, but it is very doubtful if it is possible. We may have to be content to move up steadily and soundly with them and face the debt liquidation which the pace is not fast enough to render unnecessary.

It can be urged that Canada will do better to seek to keep her dollar between the American dollar and the pound, not tied to the pound and not tied to the American dollar, subject to influence from both but following neither completely. There is a good deal to be said for this view and in the past I have supported it as a temporary policy. It means that we minimize the dislocations and disadvantages which follow from rapid shifts in the exchanges from whichever side they come. To choose this is to choose uncertain exchanges with both London and New York but to avoid such great changes as would happen in the one exchange if we were tied to the other. As against this, there is the absence of the great benefit that does accrue to merchants when they have a definite guarantee of a fixed exchange rate. There is no doubt, I suppose, that if the whole world, except the United States, succeeded in forming an area of stabilized exchanges, we should do better to join that area than to stay with the United States or in between. If all countries wait until the area is established before joining it, it never will be established: there is some suggestion here that it is becoming a duty to help to establish such an area by joining it as soon as possible.

The next point to deal with is the mechanism of exchange stabilization when the countries concerned are not on the gold standard, but that is of academic rather than general interest, and I am already keeping you too long. I will, therefore, finish by recapitulating my main conclusions:

- (1) The restoration of an international standard of value is essential to world prosperity.
- (2) A return to an international gold standard is still indefinitely remote and is dependent on action by the United States which they appear to be unlikely to adopt.
- (3) Rather than wait indefinitely, the best thing is to establish as wide an area of stabilized currencies as possible.
- (4) This area, already in existence and expanding, is the sterling bloc of countries.
- (5) All countries that can, should join this area in order to bring back as widely as possible the benefits of an international standard of value, which would give confidence to international trading, restore business activity and employment, and revive shipping and transport.
- (6) Our new central bank in Canada, as one of its first jobs, might well consider carefully whether this country has not more to gain by fixed rates with the pound than it could possibly lose, and if, after a full review of all the interests concerned — which, of course, I do not claim to have covered tonight — it reaches an affirmative conclusion, our government should sanction the co-operation of the central bank with the other central banks of the empire in order to make exchange stability within the empire not merely an accomplishing end but a definite accomplished reality on which our traders can rely. The Ottawa agreements have done something to promote empire trade, but stabilized empire currencies are needed to bring us the full benefits.

CANADIAN MONETARY POLICY — DISCUSSION

C. A. CURTIS.—I have been very much interested in the papers which we have heard this evening. With respect to Mr. Elliott's paper I think that I am in general agreement with it. There are a few points which I do not understand very well and which I should like to study further. But in general it seems to me that I agree with his presentation.

I regret that I am not so much in agreement with Mr. Day's paper and it seems to me that his analysis and views are to be criticized at several points. As I understand it Mr. Day, in effect, argues that the Canadian dollar should be tied to the pound sterling. I question this view. I do not propose, however, to do more than deal briefly with some of the points in his analysis and I leave aside a really fundamental point: could Canada follow such a policy even if it were desirable?

It seems to me that Mr. Day is quite unreasonable in his strictures on American banking policy and in his panegyrics on British monetary policy. I think there are abundant facts to show that the United States had done much to further international co-operation—with little thanks to themselves—and that the abandonment of the gold standard by Great Britain was a direct result of her own monetary policies. I do not think that this part of the argument strengthens his case at all.

Mr. Day argues that Canada should tie its dollar with sterling—leaving the Canadian dollar to fluctuate in terms of the American dollar—on an analysis which, to me, leaves out the most significant factor in the whole set-up between Canada and the United States—that is the financial relationship between these two countries. I realize that time is limited and everything cannot be included in one paper, but this is the largest single item in the problem. To my mind this is just about the deciding factor and its omission is a serious flaw in the presentation.

D. M. MARVIN.—During the past few years people in all countries have been told that our present economic difficulties are due to lack of capacity to distribute rather than to lack of productive capacity. For a long time the reiteration of this statement made but little impression. With the breakdown of the economic system which resulted from this depression, the theory of surplus productive capacity took on a new and peculiar force. In rather a blind way, almost every country in the world is attempting to solve this difficulty.

With millions of people out of work, the feeling has spread that neither established governments, nor leaders of finance, nor central

banks, nor any other organization in society, has charged itself with the duty of studying the sound means for raising the standard of living and re-establishing balance between potential production and actual consumption. It is not suggested that the solutions, which are being attempted in various countries, will bring about the desired result. Mass action is frequently unintelligent and defeats the very end which is desired.

In this evening's discussion, this organization has dealt with an applied problem in economics. Definite monetary measures have been suggested, discussed and in some cases rejected. Surely it should be the duty of a society for the study of economics to undertake this other very practical problem! From year to year we might well concern ourselves with the means for securing a steady and consistent increase in the general standard of living. The solutions which this organization would be willing to approve ought surely to be more intelligent than those which have been adopted in some of the countries mentioned. What are the practical measures which will produce a consistent rise in the standard of living? To what extent are they monetary, or to what extent should they depend on various forms of production control? While this suggestion may seem to be a digression from the main subject of the evening, it will certainly serve as a partial answer to the questions which have been raised this evening.

A. F. W. PLUMPTRE.—I am in general sympathy and agreement with Professor Elliott's paper. The argument seems somewhat impaired, however, by too great reliance upon the terminology and methods of thought of the British Macmillan Report and of J. M. Keynes. Those authorities postulated many of their arguments upon the existence of a money market throughout which interest rate changes would spread by the force of competition. In Canada general rate movements would depend upon the agreement among (or coercion of) the chartered banks. In addition, British and American economists are prone to assume that the capital goods industries are the causal variables in industrial fluctuations; and for this reason seek for stability in the control of interest rates. In Canada it seems preferable to regard the earnings of the primary industries as the causal variables.

I would like to associate myself with the general criticisms of Professor Day's paper made by Professor Curtis and Dr. Marvin. In particular, I see no evidence of a price-raising policy on the part of the Bank of England; and if (as Professor Day suggested during the discussion) Mr. McKenna sees it, I fear it is only with the eye of hope.

It is probable that Professor Day's approval of the gold standard springs not so much from a desire to regain the standard itself as from a desire to regain the type of economic system in which the international gold standard functioned effectively. But that world is gone for good. It is to be hoped that Canada's central bankers will have no

gold-standard complex; and that their actions will be based upon appreciation of the present and perspicacity regarding the future, rather than upon hopes of resurrecting the past.

F. A. KNOX.—Desirable as exchange stability may be, the proposal that Canada should join the group of countries now associated with the pound sterling seems to be a doubtful one. The international gold standard has failed to function in part because of difficulties peculiar to the post-war years and of others that arise out of the use of gold as the standard of value. But there are yet more fundamental obstacles facing a sterling as well as a gold standard which do not seem likely to be removed in the near future. The operation of an international standard in a world which welcomes international trade and capital movements and which facilitates the payment of international debts by appropriate tariff action and by the encouragement of central banking co-operation, is one thing. The attempt to maintain an area of exchange stability between countries which compete with all available weapons for world markets and at the same time to do everything to prevent the foreigner selling his goods to the domestic market and whose central banks are expected to protect them from the disturbances which are the costs of adherence to an international standard, is a very much more difficult matter. So difficult indeed is it likely to be that it is doubtful whether any group of countries inclusive enough to get for each of them substantial advantages from exchange stability can be loyal at the present time to any international standard whether it be based on gold or the pound sterling.

Not only may it be impossible to maintain such an area but it may be inadvisable for some countries, at least, to attempt it. If the present trend of economic nationalism is more than a depression phenomenon, it may be wise for some countries to reduce the degree of their dependence on a world economy. That Canada could pursue such a course with advantage is doubtful—it is conceivable that it may be forced on her to some degree. If, therefore, more specifically Canadian currency policies have to be resorted to in the future, it would be highly undesirable to be joined to any international currency group. In the sort of world into which we seem to be drifting, it may be necessary that Canada should keep available to her every instrument useful in aiding the adjustment of her economic life to changes in other countries, with a minimum of domestic disturbance. It may not be enough to rely solely on such credit control as a central bank may be able to exercise. It may be wise to allow the value of the Canadian dollar to find the level which a changing balance of payments situation may dictate, while protecting its value from violent short run changes. Positive interference with capital movements may be advisable to keep future international debts within manageable limits. In other words, exchange stability, an international monetary standard, implies a nineteenth century world—it may not be worth its costs in the twentieth.

However that may be, the present is a particularly inopportune moment to make a decision one way or the other. The long run trend of events is too burdened with the debris of depression to be discernible. If a large measure of international trade is recovered, if the nations move to restore a world economy, the establishment of exchange stability on the basis of gold or the pound sterling may be possible and advisable. If present tendencies are continued, even with some mitigation as business recovers, it will be wise for Canada to preserve complete freedom of action in these respects.

MINUTES OF THE SIXTH ANNUAL BUSINESS MEETING
OF THE CANADIAN POLITICAL SCIENCE ASSO-
CIATION, HELD IN MONTREAL, MAY 23, 1934

The annual business meeting of the Canadian Political Science Association was held at McGill University, Montreal, at 9.30 a.m. on May 23rd, 1934, with Professor Stephen Leacock in the chair.

The minutes of the preceding annual meeting, having been printed in the fifth annual volume of the Proceedings, pp. 247-8, were taken as read.

The Secretary-Treasurer presented his annual report, as printed on page 278 of these proceedings.

The Nominating Committee, composed of W. A. Mackintosh, H. A. Innis, and J. E. Lattimer, reported as follows:

President: D. A. MacGibbon, Board of Grain Commissioners,
Winnipeg.

Vice-Presidents: S. A. Cudmore, Dominion Bureau of Statistics,
Ottawa.

J. W. Dafoe, Winnipeg Free Press, Winnipeg.

J. C. Hemmeon, McGill University, Montreal.

H. Laureys, L'École des Hautes Études Commer-
ciales, Montreal.

Secretary-Treasurer: V. W. Bladen, University of Toronto, Toronto.

Editor of Publications: C. A. Curtis, Queen's University, Kingston.

The eight positions (one owing to Mr. MacGibbon's elevation to the presidency) becoming vacant on the Executive Council were filled as follows:

H. F. Angus, University of British Columbia, Vancouver.

G. A. Elliott, University of Alberta, Edmonton.

R. McQueen, University of Saskatchewan, Saskatoon.

K. W. Taylor, McMaster University, Hamilton.

Alex. Brady, University of Toronto, Toronto.

A. E. Richards, Department of Agriculture, Ottawa.

W. C. Clark, Department of Finance, Ottawa.

G. F. Towers, Royal Bank of Canada, Montreal.

In addition to these, the following members elected in 1933 to serve for two years complete the Executive Council:

- C. H. Cronyn, Bank of Montreal, Montreal.
- R. F. Jones, University of Manitoba, Winnipeg.
- H. R. Kemp, University of Toronto, Toronto.
- F. A. Knox, Queen's University, Kingston.
- R. A. MacKay, Dalhousie University, Halifax.
- B. K. Sandwell, Saturday Night, Toronto.

It was moved by H. A. Innis, seconded by J. E. Lattimer, that the proposals of the Nominating Committee be accepted. This motion was carried unanimously.

On the motion of C. A. Curtis, seconded by H. A. Innis, a committee was appointed to consider the possibility of publishing a quarterly journal independently or in co-operation with the University of Toronto: this committee to report to the Executive and to have a vote, by mail, on its proposals.

After some discussion this motion was carried and the Committee was constituted as follows:

- D. A. MacGibbon,
- C. A. Curtis,
- V. W. Bladen.

On motion the meeting adjourned.

REPORT OF THE SECRETARY-TREASURER OF THE
CANADIAN POLITICAL SCIENCE ASSOCIATION
FOR THE YEAR ENDED APRIL 30, 1934.

In reporting the work of the Association for the past year I am including as a part of the record the minutes of the meetings of the Executive Council.

Minutes of the meeting of the Executive Council of October 28, 1933:

A meeting of the Executive Council was held at Queen's University on October 28, 1933, with Professor Leacock in the chair. There were present at the meeting Messrs. Booth, Cudmore, Curtis, Knox, Loudon, Rogers and Bladen. The following business was transacted:

Dr. D. A. MacGibbon was elected to the Council in place of Mr. J. M. Macdonnell who was elected to the Council at the business meeting in May but who had felt unable to act owing to the pressure of his business duties.

An invitation to become "associated with the Royal Society of Canada" was accepted, on the understanding that it involved no financial obligation.

It was decided to accept the invitation of Sir Arthur Currie to hold the annual meeting in 1934 at McGill on May 21, 22, 23. The Secretary was instructed to inform the Canadian Historical Association of this decision in the hope that they would again hold one joint session with the C.P.S.A.

Arrangements for the annual meeting were made as follows: May 21, evening session, Presidential address; May 22 and 23, three sessions, morning, afternoon and evening. At each session two papers strictly limited to half an hour each, followed by discussion. Round tables of a more technical character to be held concurrently with the general sessions.

Subjects for the general sessions and round tables were arranged tentatively, final arrangements being left to the President, Editor and Secretary.

The suggestion of Professor Loudon that a local meeting of the C.P.S.A. be held in Toronto in conjunction with the local organization of engineers was adopted. The arrangements were left in the hands of the members of the executive living in Toronto. The Association could not undertake to publish the papers. If the members of the executive in any other city wished to experiment with local meetings it was decided that

they had authority to do so. There was considerable doubt as to the advisability of organizing local units and it was agreed that any local meetings should be considered as purely experimental.

It was decided to print a list of members early in the new year.

The possibilities and difficulties of establishing a journal were discussed. Further consideration was deferred to the next meeting.

On motion the meeting adjourned.

Minutes of the meeting of the Executive Council of May 22, 1934:

A meeting of the Executive Council was held at 5.00 p.m. on May 22nd at McGill University, Professor Leacock in the chair. There were present at the meeting: Messrs. Urwick, Cudmore, Curtis, Knox, MacGibbon, Noble and Bladen.

The minutes of the previous meeting were taken as read.

The report of the Secretary-Treasurer was read and approved.

Invitations to hold the next annual meeting of the Association in Hamilton and Toronto were read. It was agreed that the Association should meet with the Canadian Historical Association if their decision is made early enough and can be agreed to.

A letter from Professor Urwick asking the Association to consider the possibility of co-operating with the University of Toronto in publishing jointly a quarterly journal was read. It was agreed that a committee should be set up by a motion at the business meeting to consider the problem of publishing a journal independently or in co-operation with the University of Toronto.

On motion the meeting adjourned.

The year's activity of the Association may be treated under the following heads:

1. Membership.

During the past year 62 members failed to renew their membership, but 96 new members and 25 new library members were added. The membership, as shown in the published list of members, is now as follows:

Members	347
Library Members	93
	—
Total	440
	—

2. Finances.

The financial position of the Association is shown in the Statement of Income and Expenditures which is printed as Appendix I. to this report. It is pleasant to be able to report, at last, a surplus of \$260. The improved position is to be explained partly by an increase in income, partly by a decrease in expenditure, and partly by the reduction, last year, of our accumulated deficit to a very small sum. One item of expenditure calls for explanation, the administration expenses having increased by roughly \$100. There are two reasons for this; firstly, certain expenses are included which properly belonged to the previous year, and secondly, a considerable sum was spent on stationery, printing and postage for direct advertisement. Without this expenditure the income would have been reduced by a much greater sum.

3. Publication.

The Papers and Proceedings of the Fifth Annual Meeting were published in July, 1933. The Association owes a deep debt of gratitude to Professor C. A. Curtis for editing this volume.

Mr. Cudmore in his report to the Association last year said "the establishment of an economic quarterly of an all-Canadian type is overdue, and should be undertaken as soon as possible." In the meantime the University of Toronto has been contemplating developing *Contributions to Canadian Economics* into a quarterly journal. A recent letter from Professor Urwick of the University of Toronto asks that the Association should consider immediately the possibility of co-operating in a joint publication. A small committee should be appointed to consider this problem, with power to act. The future of the Association should be, in my opinion, one of surpluses used to finance further publication; as more is offered to our members more members will easily be secured, and new surpluses will be available for publication.

4. Sixth Annual Meeting.

Plans for the sixth annual meeting at McGill University were drawn up at the meeting of the Executive Council in October, 1933. Changes had to be made in these plans; it is hoped, however, that the program will prove satisfactory to

the members. The thanks of the Association are due to all who have helped to arrange the meetings and to all who are participating in them. Thanks are also due to McGill University for their hospitality.

5. Joint meeting with Engineering Societies in Toronto.

Permission having been given by the Executive Council, a meeting was held in Hart House, the University of Toronto, on April 19th and 20th, to which members of the local engineering societies and members of the Canadian Political Science Association resident in Toronto were invited. Professor T. R. Loudon took the chair. Mr. W. D. Black of Hamilton spoke on "The Stabilization of Canadian Construction." Several members of the this Association took part in the discussion of Mr. Black's proposals.

6. Affiliation with the Royal Society of Canada.

An invitation to become "associated" with the Royal Society of Canada was accepted by the Executive Council.

Respectfully submitted,

V. W. BLADEN,
Secretary-Treasurer.

Appendix I.

STATEMENT OF INCOME AND EXPENDITURES OF THE CANADIAN POLITICAL SCIENCE ASSOCIATION FOR THE YEAR ENDED APRIL 30, 1934

Income

Fees and sale of publications	\$1,467.50
Less prepaid fees	57.00
	\$1,410.50

Expenditure

Expenses of publication	\$ 779.80
Off prints	92.30
Expenses of annual meeting	34.84
Administration expenses	206.15
	\$1,113.09

Summary

Total Income	\$1,410.50
Total Expenses	1,113.09
Excess of Income over expenses for this year	297.41
Less deficit at April 30, 1933	37.13
Surplus to date	\$ 260.28
Cash on hand	\$ 317.28
Prepaid fees	57.00
	\$ 260.28

CONSTITUTION OF THE CANADIAN POLITICAL SCIENCE ASSOCIATION

ARTICLE I—NAME

This Association shall be known as the Canadian Political Science Association.

ARTICLE II—OBJECT

The object of the Association shall be the encouragement of the investigation and study of Political, Economic and Social problems. The Association as such will not assume a partisan position upon any question of practical politics nor commit its members to any position thereupon.

ARTICLE III—MEMBERSHIP

Any person nominated by two members and accepted by the Executive Council may become a member of this Association.

There shall be an annual membership of three dollars.

By a single payment of fifty dollars any person may become a life member, exempt from annual dues.

Each member will be entitled to receive a copy of all the publications of the Association issued during his or her membership.

ARTICLE IV—OFFICERS

The officers of this Association shall consist of a President, four Vice-Presidents, a Secretary-Treasurer, and an Editor of Publications, all of whom shall be elected annually, and of an Executive Council consisting ex-officio of the officers above mentioned, and of fourteen elected members (seven to be elected each year) whose terms of office shall be two years. The retiring president shall be a member of the Executive Council for two years from the date of his retirement. All officers shall be nominated by a Nominating Committee appointed by the Executive Council, and shall be elected by a majority vote of the members of the Association present at the meeting at which the elections are held.

ARTICLE V—DUTIES OF OFFICERS

The President of the Association shall preside at all meetings of the Association and of the Executive Council, and shall perform such other duties as the Executive Council may assign to him. In his absence his duties shall devolve successively upon the Vice-Presidents in the order of their election and upon the Secretary-Treasurer, and Editor.

The Secretary-Treasurer shall keep the records of the Association, receive and have the custody of the funds of the Association, subject to the rules of the Executive Council, and perform such other duties as the Executive Council may assign to him.

The Executive Council shall have charge of the general interests of the Association, shall call regular and special meetings of the Association, appropriate money, appoint committees and their chairmen, with appropriate powers, and in general possess the governing power in the Association except as otherwise specifically provided in this Constitution.

The Executive Council shall have the power to fill vacancies in its membership occasioned by death, resignation, or failure to elect, such appointees to hold office until the next annual election of officers. Five members shall constitute a quorum of the Executive Council, and a majority vote of those in attendance shall control its decisions. Ten members shall constitute a quorum of the Association, and a majority vote of those members in attendance shall control its decisions.

ARTICLE VI—RESOLUTIONS

Any proposed resolution to which objection is made by any members shall be referred to the Executive Council for its consideration before submission to the vote of the Association.

ARTICLE VII—AMENDMENTS

Amendments to this Constitution shall be proposed by the Executive Council and adopted by a majority vote of the members present at any regular or special meeting of the Association.

CANADIAN POLITICAL SCIENCE ASSOCIATION

Annual Membership *Three Dollars*

Life Membership *Fifty Dollars*

A copy of the Papers and Proceedings of the Annual Meeting for the current year is sent to all members.

Copies of the Papers and Proceedings of the Annual Meeting may be purchased at the following prices:

Volume I, 1913 (out of print) \$3

Volume II, 1930 \$1

Volume III, 1931 \$2

Volume IV, 1932 \$2

Volume V, 1933 \$3

A summary of the contents of the first five volumes will be found on the following pages.

Applications for membership and orders for copies of the publications of the Association should be addressed to the Secretary-Treasurer:

PROFESSOR V. W. BLADEN,

The University of Toronto,

273 Bloor St. W.,

Toronto.

PAPERS AND PROCEEDINGS OF THE CANADIAN POLITICAL SCIENCE ASSOCIATION

SUMMARY OF THE CONTENTS OF VOLS. I-V

VOLUME I, 1913 (153 pp.) \$3.

Government aid to agriculture	C. Hill-Tout
The rôle of the middleman	R. H. Coats
Agricultural credit systems and the West	J. A. Stevenson
Canada's balance of trade	James Bonar
Points of special interest in Canada's federal constitution, A. H. F. Lefroy	
The housing of our immigrant workers	Bryce M. Stewart
A number of papers on city government in Canada by W. B. Munro, John A. Cooper, Morley Wickett, W. D. Lighthall, T. D. Walker, J. A. Ellis and Professor Potts.	

VOLUME II, 1930 (129 pp.) \$1.

Some problems of statistics in Canadian business	W. W. Goforth
Merchandising in Canada	D. M. Marvin
Canadian censuses of the seventeenth century	A. J. Pelletier
Growth of French population in Canada	A. R. M. Lower
The relation of origins of immigrants to the settlement of the country	W. B. Hurd
Canada's international position	Adam Shortt
Inter-Imperial trade	A. B. Clark
Pacific relations	W. H. Angus
The Royal prerogative of the dissolution of parliament.....	E. A. Forsey
Credit control in Canada	C. A. Curtis
Curriculum of a course in commerce	W. A. Mackintosh

VOLUME III, 1931 (267 pp.) \$2.

The mobility of labour in relation to unemployment	L. C. Marsh
Some aspects of unemployment insurance	Bryce M. Stewart
How has business forecasting stood the test?	L. D. Edie
Is our economic system bankrupt?	O. D. Skelton
Gold and the decline of prices	W. A. Mackintosh
Canada's foreign trade in agricultural products	T. W. Grindley
Economic aspects of the agricultural problem	J. E. Lattimer
Sociological aspects of the agricultural problem	R. W. Murchie
A programme of research in agricultural economics	J. F. Booth
Transportation as a factor in Canadian economic history.....	H. A. Innis
Is a revision of taxation powers necessary?	H. R. Kemp
The Compact theory of Confederation	N. McL. Rogers
The development of Canadian federalism	F. R. Scott
Some further comments on Dominion-Provincial relations.....	J. S. Ewart

VOL. IV, 1932 (268 pp.) \$2.

The extent of unemployment in Canada	H. M. Cassidy, A. G. Heakes and G. E. Jackson
Relief works as a remedy for unemployment in the light of Ontario experience, 1930-32	H. M. Cassidy
Unemployment insurance in Canada	H. A. Logan
The rôle of private charity in meeting distress due to unemployment	F. G. Pedley
Problems of a Commonwealth tribunal	R. A. MacKay
The place of the Far Eastern crisis in world affairs.....	N. A. McKenzie
Some phases of early Canadian railway development	S. J. McLean
The automatic gold standard and the necessary modifications	A. B. Balcom
Currency management in Canada	A. F. W. Plumptre
Empire currency proposals	J. P. Day
The rise of national parties in Canada	E. M. Reid
The party system in Canada	F. H. Underhill
The St. Lawrence waterway project	W. T. Jackman
Need for a theory of bargaining in the theory of taxation, D. C. MacGregor	
Combines and public policy	V. W. Bladen, J. J. Finkelman
Planned economy	E. A. Forsey, W. B. Hurd

VOLUME V, 1933 (256pp.) \$3

The economic analysis of industrial depression	Stephen Leacock
Economic equilibrium and the investment banker	J. L. McDougall
The commercial class in Canadian politics, 1792-1840.....	D. G. Creighton
Freedom in our time	E. J. Urwick
An economic council for Canada	A. Brady
Efforts to control marketing by government boards or organizations acting with government support	J. Coke
Recent legislation affecting international trade in farm products	C. B. Davidson
Public ownership	Tom Moore, T. W. L. MacDermot
Corporation finance and company law reform, R. G. H. Smails, F. W. Wegenast	
The back to the land movement	J. E. Lattimer
Freedom of speech in Canada	F. R. Scott
Administrative law in Canada	J. A. Corry
Population problems	M. C. MacLean, K. W. Taylor
The proposal for a Canadian central bank	J. E. Van Buskirk
Canadian bankers and a central bank	F. C. Biggar

[illegible]

TRENT UNIVERSITY
0 1164 0288785 9

004496

